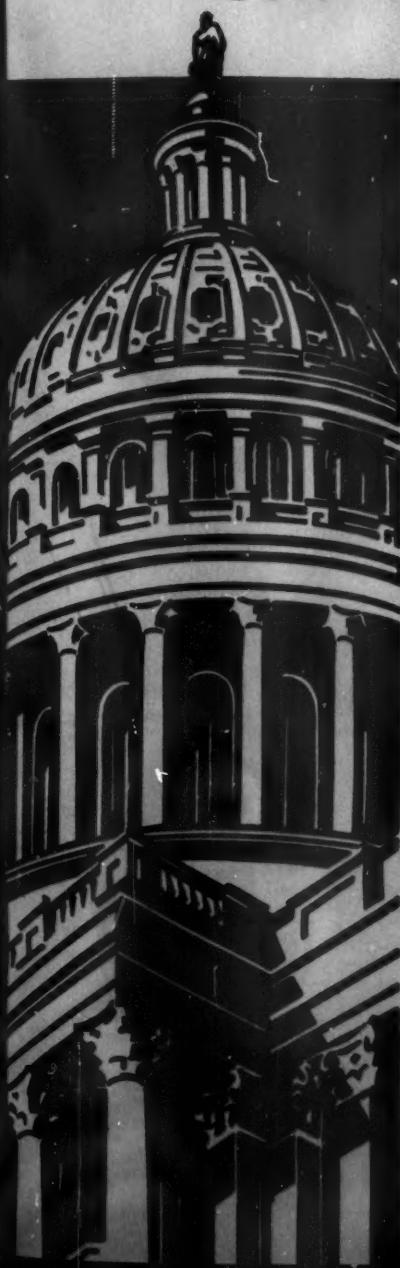


# CONGRESSIONAL PRO & CON DIGEST



October, 1934

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## Government Ownership of Power Utilities

Legislative History of Federal Control  
Functions of Federal Power Commission  
Water Power Under the "New Deal"  
The President's Policy and Program  
The Tennessee Valley Experiment  
Will Government Operation Benefit the Public?

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Pro and Con



**WASHINGTON, D.C.**

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# THE CONGRESSIONAL DIGEST

The Pro and Con Monthly

Not an Official Organ, Not Controlled by Nor Under the Influence of Any Party, Interest, Class or Sect

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• THIS MONTH'S FEATURE •

## Government Ownership of Power Utilities

### Analysis of the Problem with Study Outline

For about forty years the question of how the water power resources of the country should be used has been the subject of controversy.

The question of how they should be utilized is of peculiar interest at the present time because President Roosevelt's water power policy is one of the most vital points in his entire administration program.

Since school and college students in several States have selected the question of Government operation of power utilities as their major topic for debate for the 1934-35 term, the present number of the DIGEST was prepared to meet their needs. This necessitated the omission of several regular departments which will be resumed in the November and succeeding numbers.

#### *Early Developments*

In the 1890's the development of electricity by means of water power was making its first great strides and large companies, organized to produce and sell electric current, were beginning to develop hydro-electric plants.

Many of the water power sites selected for this purpose were on Federal or state-owned lands and, in the early stages, these sites were bought by the power companies.

In a few years, however, the Federal Government put a stop to the sale of sites on Federal territory and, by Congressional action, made provision for the lease of these sites for a limited number of years. Under this system private companies leased Federal water power sites and operated their power companies under slight regulation by the Government.

#### *Objections in Congress*

As time went on the regulatory restrictions were tightened up but they were never tight enough to satisfy a number of Senators and Representatives, who argued that the power companies were obtaining unwarranted use of the public domain which, in reality belonged to the American public and should be used for the benefit of the public. This attitude led to further legislation for Federal regulation and restriction of the power companies.

#### *The Private Operation Argument*

As the fight went on, two distinct schools of thought developed. One school held that it would be more advantageous to the public, generally, for the Federal Government to continue to own all its power sites but to lease them to private concerns for public utility operation, retaining strict control and carefully regulating the rates charged for such service.

Their position has been, and still is, that, in the end, private operation is always cheaper than Government operation and that the interests of the public can always be protected by Government regulation.

They argue that Government operation always leads to bureaucracy and that anything governmentally operated becomes, sooner or later, a political football. Costs are always run up and the taxpayer is always called upon to foot the bills. The final result, they declare, is that in taxes and the payment of the costs of Government bureaus is a heavier burden on the public in the end than the payment of a fair price to a privately operated concern for the service rendered.

#### *The Public Operation Argument*

The other school of thought holds that, to begin with, the public domain and the navigable streams belong to the American people as a whole and, therefore, should be used only for the benefit of the entire population.

Therefore, they continue, private individuals or corporations should not be permitted to utilize them for profit. The Government, they declare, should develop and operate these resources and charge just enough for the services rendered to pay for the cost of development and operation.

They emphatically deny that private operation is less costly than government operation and cite numerous instances of municipal ownership and operation of utilities in this country and of full government operation in the Province of Ontario, Canada, in support of their position.

#### *The Muscle Shoals Controversy*

For nearly fifteen years following the end of the World War, the Muscle Shoals, Ala., power project was the bone of contention between the advocates of government and private operation.

During the war the Government built plants at Muscle Shoals for the development of power to manufacture

nitrates for explosives, the nitrates to be used after the war for agricultural fertilizer.

The war ended before the project was completed and it was then that the fight over its disposition began.

Led by Senator George W. Norris of Nebraska the advocates of Government operation pressed for legislation for the complete operation of the project by the Government for the distribution of cheap electricity and the manufacture of cheap fertilizer.

The Norris bill was finally passed but was vetoed by President Hoover. It was passed again soon after President Roosevelt was inaugurated, and promptly signed by him.

The provisions of the original Norris bill, however, had been tremendously extended in the final draft which the House and Senate passed and which President Roosevelt signed.

#### *The "T. V. A." Project*

The bill as finally drawn, created what is officially named "The Tennessee Valley Authority" and gave it power such as no other Government agency has ever been given before.

Not only were the power projects of Muscle Shoals turned over to this Authority, popularly known as "TVA," to develop and operate, but TVA was authorized to buy up existing privately owned utilities, to finance the sale of electric appliances, to operate manganese mines and to build houses, to create new industries and to do practically everything necessary to develop the entire Tennessee Valley, which includes parts of three or four states, and to raise the standard of living of its population.

Therefore, the TVA project became not only the greatest test America had ever had for the Government operation of utilities, but also a laboratory for the expenditure of public funds for creating new conditions of living among several million citizens in a specific area.

It was but natural, therefore, that the TVA project should become the storm center of discussion over private vs. Government operation.

#### *Government Ownership and Operation*

Until the TVA was created the discussion of public ownership and operation in utilities had dealt more or less with theory rather than practice. It is true, many municipalities operated power and light facilities including street car lines. The Federal Government has always operated the postal service. During the World War all communications—telephone, telegraph, and railroads—were taken over by the Government, but they were turned back to their private owners soon after the armistice.

War needs forced the Federal Government to build merchant ships and these were operated by the Government for a period after the war, but Government efforts were directed at selling the ships as rapidly as possible to American citizens and firms to establish a privately owned and operated merchant marine. As a starter, the Government leased the ships to various companies, with privilege to purchase, and finally disposed of nearly all of them. Therefore, Government operation of merchant ships has been carried on only because there was no other way for the time being, to develop an American merchant marine.

TVA, however, represents the sum total of Government ownership and operation of public utilities and, conse-

quently, offers a wide field for discussion. It is true that the TVA is still in the stage of experiment, or, rather, in the stage of development, but the program is sufficiently advanced to have brought out a few definite points of issue.

#### *Content of This Number*

For these reasons the DIGEST gives particular attention to the TVA controversy in the Pro and Con section, because those arguments are based on actual, concrete conditions as well as on theoretical premises.

The article by Mr. Jenkins, beginning on the next page gives the reader the background necessary for a clear understanding of the controversy.

Following this is the article by Chairman McNinch, of the Federal Power Commission describing the manner in which the Government regulates water power utilities.

On page 233 will be found President Roosevelt's own declaration of his water power policy, followed by the action he has taken since becoming President. Mr. Roosevelt's speech at Portland, Oregon, on September 21, 1932, during the Presidential campaign was written for this express purpose.

When, after he became President, the Norris bill creating TVA had been passed, he turned his attention to other power projects, aiding those already established and starting others with Public Works Administration funds, his authority under the PWA Act permitting him to do this.

One big project desired by the President remains to be authorized, and that is the power phase of the St. Lawrence Seaway project. What he expects from this project is set forth in his message transmitting to the Senate the proposed treaty with Canada, which must be ratified by the Senate. (See page 236.)

As part of his plan for the coordination of Nation-wide power projects, the President created a "Power Policy Committee." His reason for this will be found on page 237.

#### *The Class-Room Study\**

While there is much that is highly technical involved in the question of the production and distribution of hydro-electric power, the class in Government operation may reduce the problem to simple terms by introducing the following bill:

*"Be it enacted by the Congress of the United States:*  
*Section 1.* The President of the United States is hereby authorized to develop all water power sites in the public domain for the production and distribution of hydro-electric power.

*Section 2.* The sum of one million dollars (\$1,000,000) is hereby appropriated for a preliminary survey under the direction of the President to determine the method and cost of such development and production of hydro-electric power as set forth in *Section 1* of this Act, and to report to the Congress an estimate of additional funds for this purpose.

A bill of this character would probably be referred in the House to the Committee on Interstate and Foreign Commerce and in the Senate to the Committee on Commerce.

\*For the class-room using the teaching plan established in the Instructor's Handbook for "Teaching American Government and Politics by the Laboratory Method" published by THE CONGRESSIONAL DIGEST (furnished free to Instructors using the DIGEST).

# Legislative History of Federal Water Power Control

by John Wilbur Jenkins

Director, Bureau of Information  
Federal Power Commission

FEDERAL control of water-power development on public lands and reservations of the United States, on navigable waterways, and in streams forming or crossing international boundaries is derived from three provisions of the Constitution:

Article 4, Section 3, gives to Congress the power "to dispose of and make all needful rules and regulations respecting the territory or other property belonging to the United States."

Article 1, Section 8, confers upon Congress the general power "to regulate commerce with foreign countries and among the several States," giving it jurisdiction over all navigable waters.

Article 2, Section 2, gives the Federal Government the sole power to make and enforce treaties, which are made by the President with the concurrence of the Senate. This covers all international waters.

Navigable rivers, though controlled by Congress under the Constitution, were long left to State development. Congress did, in 1802, make a small appropriation for piers in the Delaware River. Albert Gallatin's famous report of 1800, proposing canals and turnpikes along the Atlantic Coast from Maine to Georgia, and connecting eastern waters with the Great Lakes and the Ohio, led the way. Surveys of the Mississippi's tributaries were authorized by Congress in 1819, and in 1824 general surveys for canals were authorized.

Treasury loans and grants of public lands aided in the vast waterway and canal developments that reached their climax between 1825 and 1840. But these improvements generally were undertaken by the States themselves, or by State-chartered corporations.

## *The Public Domain and Irrigation*

For half a century legislation proceeded along two distinct lines, first, relating to public lands and reservations; second, to navigable waters. In the West farmers and miners appropriated waters, used streams and built ditches as they pleased, by right of suffrage.

Conflicting claims were settled at first in accordance with local customs; later by local laws and court decisions. Congress by the act of June 26, 1866, confirmed these rights and authorized further acquisitions "for mining, agricultural, manufacturing, and other purposes."

Irrigation became important. Vested rights in public lands for canals and ditches for this purpose were, by the provisions of the act of July 9, 1870, made effective against subsequent patentees. These became so numerous that it was necessary to have such rights permanently recorded in the Land Office. To obtain this record and maintain the rights acquired, the act of March 3, 1891, was passed. Both this law and the act of 1895 authorized the Secretary of the Interior to grant rights of way for ditches, canals and reservoirs primarily for irrigation, incidentally for power. But it was not until 1896 that specific power legislation was passed.

"Before 1896 water-power sites on the public lands went to patent either as parts of homesteads or by purchase and were given no attention by the Federal Government."

"Under this procedure a large number of the best sites were practically given away and in that manner passed to private ownership without control. As fast as the new power concerns could grab these valuable sites they did so. Whenever such concerns today occupy lands under the old, lax laws, they are beyond federal control as long as the business is intrastate." (J. G. Kerwin, "Federal Water-Power Legislation.")

## *Early Water Power Acts*

Hydroelectric development, beginning in the early nineties, presented new problems. The lands required were at first either occupied in trespass, or possession was maintained or title acquired by recourse to statutes not designed for such purposes.

To meet this situation Congress passed the act of May 14, 1896, which for the first time specifically authorized the use of rights of way and station grounds upon the public lands and reservations for the generation of electric power.

The Secretary of the Interior by this Act was "authorized and empowered under general regulations to be fixed by him, to permit the use of a right of way, not exceeding 40 acres upon public lands and forest reservations, for the purpose of generating, manufacturing, or distributing electric power."

To encourage power development in connection with irrigation, the act of May 11, 1898 (30 Stat., 404), was passed, amending the act of 1891. Rights obtained thereunder were regarded as easements, vesting a title which could be reclaimed by the Government only by court proceedings for failure to construct or use.

Confusion resulted from this piecemeal legislation, with conflicting claims, and to remedy this situation, Congress passed the act of general rights-of-way, February 15, 1901, superseding previous laws which clarified the powers of the Secretary to grant rights of way for "electrical plants, poles and lines for the generation and distribution of electrical power. Such permits were, however, revocable at will. House and Senate Committees reported this bill unanimously, and it passed without debate or amendment.

Public domain was further extended by an amendment

to the Agricultural Appropriation Bill of 1911 which empowered the Secretary of the Interior to grant easements or rights of way, "for a period not exceeding 50 years," "over public lands, forests, and reservations for electrical poles and lines."

#### *Control of Navigable Streams*

Congress did not for a hundred years, from the foundation of Government of the United States, assert its undisputed authority over navigable streams. It was not until 1884, in the Rivers and Harbors Act of July 5th, that the Secretary of War was directed to report whether bridges crossing or structures erected in navigable streams were interfering with navigation.

Eight years later, the Rivers and Harbors Act of September 27, 1890, declared:

"The creation of any obstruction, not affirmatively authorized by law, to the navigable capacity of any waters, in respect of which the United States has jurisdiction, is hereby prohibited."

Each week's continuance of such obstruction was made a separate offense, punishable by fine not exceeding \$5,000, imprisonment not exceeding one year, or both. The Attorney General was empowered to institute proceedings in equity for removal of such obstructions.

Under this act each separate dam construction had to be authorized by Congress. Only a few such acts had been passed before. These were mainly on the upper Mississippi River, in Minnesota. First was the grant to the St. Cloud Water Power and Mill Co. to dam the river at Sauk Rapids, approved the same day, July 5th, as the Rivers and Harbors Act of 1884. Then came the grant to the Mississippi River Improvement & Power Co., at Brainerd, Minn., April 15, 1886; and to the Little Falls Water Power Co., Little Falls, Minn., July 3, 1886. Under the act of 1890 a few more were authorized.

#### *The Act of 1899*

From time to time thereafter provisions were made for the regulation and control of various classes of structures in or over navigable streams, all of which were brought together in the comprehensive act of March 3, 1899 (30 Stat., 1151), still in effect. This law sets forth in Section 12:

"That it shall not be lawful to construct or commence the construction of any bridge, dam, dike, or causeway over or in any port, roadstead, haven, harbor, canal, navigable rivers, or other navigable water of the United States until the consent of Congress to the building of such structures shall have been obtained and until the plans shall have been submitted to and approved by the Chief of Engineers and by the Secretary of War. *Provided*, such structures may be built under authority of the legislature of a State across rivers and other waterways the navigable portions of which lie wholly within the limits of a single State, provided the location and plans thereof are submitted to and approved by the Chief of Engineers and by the Secretary of War before construction is commenced."

No considerable objection was raised to the dam provisions, and there was little debate on this bill. It narrowly escaped death by the Nicaragua Canal filibuster, but the only senatorial objector was Warren of Wyoming who wanted some provision made for irrigation. Senator Frye of Maine agreed to a recommittal, Warren was appeased, and the bill passed in the closing hours of the 55th Congress.

#### *The General Dam Act of 1906*

In the twenty-two years from 1884 to the passage of the first General Dam Act in 1906, more than 30 special acts of Congress were passed.

In 1905 the House Committee on Interstate Commerce reported a bill for the general regulation of water-power dams in navigable streams. But opposition developed and the minority report held that "citizens should not be denied the use of the water-power of streams simply because they are declared navigable"; asserted that no plan for development would be practical unless some provision was made for reimbursement, if a dam was taken over by the government, and concluded that "Not a dollar of capital will be invested under the drastic provisions of the bill." This bill failed of passage in the 58th Congress.

A year later, June 21, 1906, Congress passed the first General Dam Act containing practically the same provisions.

Introduced in the House by Representative Mann of Illinois in December, 1905, it was favorably reported by the Committee in January. In its report the Committee recounted the need of uniform regulations and set forth its effort to frame legislation which would permit water-power development and at the same time render it easier and cheaper for the Government to improve the navigation of streams through private capital.

The bill, practically unopposed, passed the House June 4; the Senate June 16, and was signed by the President June 25, 1906.

#### *Power Policy Established*

Congress, in this law, enacted the first general legislation fixing conditions attaching to each power authorization. Plans and specifications must be approved by the Chief of Engineers and the Secretary of War, who could at any time require the grantee to construct, maintain and operate, without expense to the United States, locks and other navigation facilities; or to grant lands needed and free power for operation of such facilities, if constructed by the Government. The Government reserved authority to construct locks in the dams and to control water discharges and pool levels. Grantees were required to maintain, at their own expense, lights, signals and fishways. Construction must be started within one year, and completed within three.

No time limit was placed on the duration of the grant itself; but it could be repealed by Congress, and in event of refusal to comply with any orders of the Chief of Engineers or the Secretary of War, any dam or other structure might be removed by the United States at the expense of the grantee and without compensation.

Some 25 special acts authorizing dams had been passed by Congress, under the General Dam Act of 1905, all signed by President Theodore Roosevelt, when J. Adam Bede in January, 1908, introduced a bill extending to 1912 the time for completion of the Rainy River Improvement Co.'s dam and power plant on this boundary stream between Minnesota and Canada. First authorized in 1898, the time had been extended by four special acts. The fifth was promptly passed and sent to the President April 6.

#### *Theodore Roosevelt on Water Power*

President Roosevelt, amazed by these numerous extensions, startled Congress and the country by vetoing the

bill. This veto, dated April 13, 1908, set forth a new policy regarding water-powers.

Asserting his belief that natural resources should not be granted and held in an undeveloped condition for speculative or other reasons; that permits should be for fixed periods, expiring on a specified day; and that each permit should recognize the right of the Government to impose reasonable charges for use of the power, Mr. Roosevelt declared:

"We are now at the beginning of a great development in water power. Its use in electrical transmission is entering more and more largely into every element of the daily life of the people. Already the evils of monopoly are becoming manifest; already the spirit of the past shows the necessity of caution in making unrestricted grants of power.

"The present policy pursued in making these grants is unwise in giving away the property of the people in the flowing waters to individuals or organizations practically unknown, and granting in perpetuity these valuable privileges in advance of the formulation of definite plans as to their use. In some cases the grantees apparently have little or no financial or other ability to utilize the gift, and have sought it merely because it could be had for the asking.

"In place of the present haphazard policy of permanently alienating valuable public property we should substitute a definite policy along the following lines:

"First, there should be a limited or carefully guarded grant in the nature of an option or opportunity afforded within a reasonable time for development of the plant and for execution of the project.

"Second, such a grant as concession should be accompanied, in the act making the grant, by a provision expressly making it the duty of the designated official to annul the grant if the work is not begun or plans are not carried out in accordance with the authority granted.

"Third, it should also be the duty of some designated official to see to it that in approving the plans the maximum development of the navigation and power is assured, or at least that in making the plans these may not be so developed as ultimately to interfere with the better utilization of the water or complete development of the power.

"Fourth, there should be a license fee or charge which, though small or nominal at the outset, can in the future be adjusted so as to secure a control in the interest of the public.

"Fifth, provision should be made for the termination of the grant or privilege at a definite time, leaving to future generations the power or authority to renew or extend the concession in accordance with the conditions which may prevail at the time."

#### *Federal Rights Over Navigable Streams*

When Secretary of the Interior Garfield found that the Rainy River Co. had spent \$750,000 on the project, and that the delays were unavoidable, and the company signed an agreement for a time limit and other details, coming under the General Dam Act, the President withdrew his objections and, at his request, the bill was passed over his veto.

He held firmly to the opinions expressed in his veto

message, however, and extended and elucidated them further in his subsequent veto of the James River Bill.

President Roosevelt, in a letter to the Senate Committee on Commerce, March 13, 1908, stated that he had decided to sign no bills thereafter which did not provide for a government charge and time limit.

The Committee, citing several precedents and legal authorities, contended that the United States has no property in streams except for navigation purposes and "hence has nothing to sell or to exact compensation for," and said:

"The plan proposed by the President would deprive the States and the riparian owners of their rights in the use of the water of a navigable stream now vested in them by law, and would concentrate the entire disposal and control in the federal government, a power which neither the States nor the riparian owners can, with justice or safety, for a moment concede." (60th Congress, 1st Sess., Sen. Report 585.)

#### *Theodore Roosevelt's James River Veto*

President Roosevelt repudiated this argument and other opposing contentions in his James River veto, saying:

"The fact that the proposed policy is new is in itself no sufficient argument against its adoption. As we are met with new conditions of industry seriously affecting the public welfare, we should not hesitate to adopt measures for the protection of the public merely because those measures are new. When the public welfare is involved, Congress should resolve any reasonable doubt as to its legislative power in favor of the people and against the seekers for a special privilege.

"My reason for believing that the Federal Government, in granting a license to dam a navigable river, has the power to impose any condition it finds necessary to protect the public, including a charge and a limitation of the time, is that its consent is legally essential to an enterprise of this character. It follows that Congress can impose conditions upon its consent . . ."

The people of this country, he contended, are threatened by a monopoly far more powerful—because in closer touch with their domestic life—than anything known to experience.

President Roosevelt continued:

#### *Corporations Control of Power Projects*

"The great corporations are acting with foresight, singleness of purpose, and vigor to control the water powers of the country. They pay no attention to State boundaries and are not interested in the constitutional law affecting navigable streams except as it affords what has aptly been called a 'twilight zone,' where they may find a convenient refuge from any regulation whatever by the State of Illinois with equal vigor and with like arguments to those with which they oppose the National Government pursuing the policy I advocate. Their attitude is the same with reference to their projects upon the mountain streams of the West, where the jurisdiction of the Federal Government as the owner of the public lands and national forests is not open to question. They are demanding legislation for unconditional grants in perpetuity of land for reservoirs, conduits, power houses, and transmission lines to replace the existing statute which authorizes the

administrative officers of the Government to impose conditions to protect the public when any permit is issued. Several bills for that purpose are now pending in both Houses . . . .

"The new legislation sought in their own interest by some companies in the West, and the opposition of other companies in the East to proposed legislation in the public interest, have a common source and a common purpose. Their source is the rapidly growing water-power combination. Their purpose is a centralized monopoly of hydroelectric power development free of all public control. It is obvious that a monopoly of power in any community calls for the strict public supervision and regulation."

#### *"The Growing Monopoly"*

"I esteem it my duty to use every endeavor to prevent the growing monopoly, the most threatening which has ever appeared, from being fastened upon the people of this nation."

The conditions Mr. Roosevelt laid down were:

1. A limited and carefully guarded opportunity to develop the project.
2. Provisions to annul the grant if, after a reasonable period, work is not begun.
3. Plans to provide for maximum development.
4. A license fee or charge, adjusted to profits in the future.
5. A time limit for the grant (about 50 years), giving future generations a chance to renew or revoke concessions.
6. Revocation of permit on proof that the licensee is engaged in any unlawful combination or restraint of trade.

The issues were joined. Neither side would yield, and no further waterpower legislation was enacted.

President Roosevelt maintained his position firmly. His administration was nearing its end, and both the power interests and their friends in Congress waited for more favorable conditions.

The Rainy River and James River vetoes and Roosevelt's messages outlined a new and vigorous policy. Conservation of natural resources—streams, water-powers, forests, oil, minerals—had become a country-wide crusade. Under Roosevelt's urging the National Rivers and Harbors Congress, the Island Waterways Commission, and the National Conservation Congress were created, and the Governors of all the States called together in conference.

The General Dam Act when passed in 1906 was regarded as a distinct step forward. Roosevelt himself had signed some twenty-five special bills passed under it with no provisions for changes or time limitation of grants. Now it was considered entirely inadequate. New legislation was demanded.

#### *Congress Prepares New Legislation*

The House Committee on Interstate and Foreign Commerce had been for months considering a new bill. Chairman Stevens of Minnesota, explained on February 27, 1909, that the bill would not be reported, as the time was not feasible; the bill must be carefully drawn to protect national as well as private property rights; conflicting state and federal rights made the subject difficult to deal with; "the boundary of private rights must be ascertained

and respected in the instances where such rights exist, and the divergent views and interests considered, requiring much time for their proper understanding, thorough consideration and final settlement."

The main reason for delay was not stated; that Mr. Roosevelt's term would end within another week, and opponents hoped that the new President would not insist on time limits, charges, and rigid regulation.

The Second General Dam Act, the last important general water-power legislation before the passage of the Federal Water-Power Act of 1920, was reported to the House on April 11, 1910, passed both houses with surprisingly little debate, and was signed by President Taft on June 23, 1910. This amended the Act of June 21, 1906, following the same general lines, but providing further that the Chief of Engineers, in acting upon plans "shall consider the bearing of such structure upon a comprehensive plan for the improvement of the waterway over which it is to be constructed with a view to the promotion of its navigable quality and for the full development of water power" . . . and shall "fix such charge or charges for the privilege granted as may be sufficient to restore conditions with respect to navigability as existing at the time such privilege be granted or reimburse the United States for doing the same, and for such additional or further expense as may be incurred by the United States with reference to such project, including the cost of any investigations necessary for approval of plans and of such supervision of construction as may be necessary in the interests of the United States."

#### *Government Charges*

They were also authorized and directed "to fix and collect just and proper charge or charges for the privilege granted to all dams authorized and constructed under the provisions of this Act which shall receive any direct benefit from the construction, operation, and maintenance by the United States of Storage Reservoirs at the headwaters of any navigable streams, or from the acquisition, holding, and maintenance of any forested watershed, or lands located by the United States at the headwaters of any navigable stream, wherever such shall be, for the development, improvement, or preservation of navigation in such streams in which dams may be constructed."

In case the Government took over the property, the grantee was to have paid "as full compensation the reasonable value thereof, exclusive of the value of the authority or franchise granted," such reasonable value to be determined by the Secretary of War and the grantee, and if they failed to agree, by the United States District Court.

Permits were to run for not exceeding fifty years, actual construction to be begun in one year, and completed within three years.

While both charges and time limits were imposed, the terms were general and indefinite, and it was a compromise measure, designed to appease both the conservationists and power interests.

#### *A Ten-Year Fight*

A dozen or so special acts were passed and grants made under it, in 1911, but both applications and grants soon ceased. Water legislation halted, and water-power development was impeded while the long fight over federal regulation continued for ten years.

The Act of 1910 was an administration measure, prepared, Mr. Stevens of Minnesota told the House Committee, in consultation with President Taft and his advisors.

In the summer of 1912, during the presidential campaign, after Taft and Wilson had been nominated and Roosevelt was inaugurating the "Bull Moose" movement and the new Progressive party, in the midst of the heated tariff debate in Congress, the largest of all omnibus water-power bills was introduced.

Seventeen dam projects were lumped together in one measure, based on the "pork barrel" principle, the third such bill introduced since 1906. No provisions for charges or regulation were included.

Rainey of Illinois led the attack on the bill as a power trust grab, and a bitter fight ensued; Austin of Tennessee and other advocates warmly defending it, centering their fire on Rainey.

Friends of the bill thought they had the President with them. The fight was partially shifted from the House to the Senate.

#### *The Coosa River Bill*

On July 20, 1912, the Coosa River bill, to enable the Alabama Power Co. to build a dam at Lock 18, was introduced in the Senate. This was one of the projects included in the House Omnibus Bill. Senator Burton of Ohio, Chairman of the National Waterways Commission, which in March had made its monumental "Final Report," offered an amendment providing that no rights conferred by the bill should be assigned or transferred except upon the written consent of the Secretary of War, and that "the Federal Government reserve the right to control the charges for service to consumers in the event that the public interests may so require." Senator Poincexter offered an amendment providing for tolls. Both were rejected, and the bill passed without a record vote.

Heflin of Alabama attempted to put it through the House by immediate consideration. It was, however, referred to committee, reported favorably, and the debate began August 22nd. Heflin and Underwood led the fight for the bill, supported by Adamson of Georgia and Mondell of Wyoming, who sharply attacked the "conservationists." Humphreys of Mississippi offered an amendment providing for charges.

Rainey of Illinois figured that from its 400,000 horsepower the Alabama Power Co. could make about \$8,000,000 a year; could pay \$2 per horsepower to the Government, charge consumers less than \$12 per horsepower, and still make 10 per cent on the investment. Opposition was swept down and the bill passed.

#### *The Famous Taft Veto*

President Taft on August 24, 1912, amazed the power advocates and surprised the country by returning the bill to Congress without his signature, on the ground that it failed to provide for charges. In his veto message he said:

"If the Federal Government choose to build this dam itself in aid of navigation, its right to the water power incidentally created would be beyond question. When, instead of building the dam itself, it builds it by an agent, as proposed by this bill, I believe it to be equally clear that the dam and all its incidents, including the water power created, is within the regulative power of the Federal Government in respect to navigation . . . ."

"No provision is made in the bill whereby the Secretary of War may, in granting the permit, exact such compensation as in the course of time may prove to be necessary . . . I think this is a fatal defect in the bill."

The bill failed to pass over his veto. Many were mystified by this veto, a reversal of the President's policy.

Secretary Stimson, it was later revealed, not only inspired the veto but wrote the message. This was stated years later by Senator Bankhead of Alabama.

#### *Avoiding "a Family Row"*

Hearing that Mr. Taft might veto the bill, Mr. Bankhead rushed to the White House to remonstrate, reminding the President that the bill asserted the principles that Mr. Taft held when he was Secretary of War. Mr. Taft replied: "that is true; those were my views then, and they are my views now."

Asked why he vetoed the bill, Mr. Taft explained, according to Mr. Bankhead:

"Senator, I have a Bull Moose Secretary of War; he insists upon this veto along the lines of a veto message that I have authorized him to write."

"That is very strange, Mr. President," Senator Bankhead commented.

"Well, it is," Mr. Taft replied. "I have not changed my opinions upon the same, but I am too near the end of my administration to have a family row." (Quoted by J. W. Kerwin, "Federal Water-Power Legislation.")

"In the case of navigable streams development was practically at a standstill after the Coosa River veto in 1912." Kerwin states, "a bare 200,000 horsepower had been developed."

"Less accurate statistics place the amount of horsepower developed on navigable streams before 1920 at 400,000 horsepower." Considering later figures, Kerwin concludes that "it would seem fair to say that development on navigable streams amounted to 300,000 horsepower."

The controversy over Federal power legislation continued in Congress until, under the administration of President Wilson, the Act of June 10, 1920, was passed, creating the Federal Water Power Commission, composed of the Secretaries of War, Interior and Agriculture.

This Act was amended under the administration of President Hoover, by the Act of June 23, 1930, creating an independent Commission of five members, appointed by the President.

## **The Federal Power Commission and the Power Laws**

by Frank R. McNinch

Chairman, Federal Power Commission

CREATED by the Federal Water Power Act of June 10, 1920, the Federal Power Commission was originally composed of the Secretaries of War, Interior and Agriculture.

Reorganized by the Act of June 23, 1930, with five whole-time Commissioners appointed by the President; it is now composed of Frank R. McNinch, of North Carolina, Chairman; Basil Manly, of the District of Columbia, Vice Chairman; Herbert J. Drane, of Florida; Claude L. Draper, of Wyoming, and Clyde L. Seavey, of California.

The Commission has general administrative control over all waterpower sites on the navigable waters and on the public lands and reservations of the United States, and over the location, design, construction, maintenance, and operation of power plants upon such sites. It is authorized to:

Investigate each application for license to determine whether the project proposed can and will be economically developed, will furnish necessary service, and is best adapted to a comprehensive scheme for developing the water resources of its region, not only for power but also for irrigation, navigation, flood control and water supply.

Prescribe depreciation reserves, renewals and replacements to assure adequate maintenance and efficient operation.

Establish a system of accounts for licenses that provides for current determination of the actual legitimate cost of projects, the creation and disposition of depreciation and amortization reserves, and allocation of the project's earnings.

Determine whether the power development value of lands reserved for power purposes will be injured or destroyed by any proposed location, selection or entry under the public land laws.

Determine the value of power available at Government dams, the advisability of developing water powers for public purposes; and fix annual charges to reimburse the cost of administration and recompense the United States for the use of its lands and other property.

Conduct general investigations of power resources and their relation to foreign and interstate commerce, cooperating with State and National authorities.

Carry on special investigations directed by Congress and the President, of which three are now in progress—The National Power Survey, the Electric Rate Survey, and an inquiry into the cost of electrical distribution.

The Commission is largely self-supporting. Revenues from license fees and rental charges substantially cover the annual expenditures for administration, the larger portion being allotted to States, to the War Department for maintaining dams and other improvements; to the Indian funds, and the Reclamation Fund.

The Federal Water Power Act represents the declared policy of Congress to conserve our water resources, improve navigation and develop water powers through private and governmental agencies. The conditions prescribed for licensing the use of public lands and streams subject to Federal jurisdiction safeguard the public interest.

To protect consumers and assure the financial stability of power projects, the Commission is authorized to regulate the rates, services and securities of licensees in States having no duly constituted regulatory agency, or in interstate business where State authorities are unable to agree.

The "recapture" provision is a basic feature of the Act. This reserves to the United States, or to any State or municipality designated by the Commission, the right to take over any licensed project, upon expiration of the

license, by payment to the licensee of the net investment, not to exceed fair value of the project.

To preserve this option of recapture, and the rights relating thereto, and to protect the consuming public from unreasonable rates, the Commission is required to determine currently the actual legitimate cost of projects constructed under license, and the fair value of licensed projects constructed under previous authority.

Reduction of net investment, and consequently of the recapture and rate base, are provided for by the creation of amortization reserves in excess of a specified reasonable rate of return.

The aggregate capacity of projects covered by applications pending or granted to July 30, 1934, was approximately 7,493,000 primary and 18,225,000 horsepower proposed installations. 278 licenses have been granted for transmission lines.

During the fiscal year 1934, the Commission collected from licensees \$570,908.10. Of this \$15,205.05 was distributed to Indian Reservations; \$86,583.42 to the Reclamation Fund; \$190,871.61 to the War Department for maintenance and operation of dams; \$64,937.57 paid to States; \$792.97 credited to the Oregon and California land grant fund, and \$212,517.48 paid into the General Fund of the Treasury.

Since its establishment in 1920, the Commission has collected from licensees a total of \$4,271,124.44. Of this \$73,830.50 has been paid to Indian reservations; \$653,569.67 to the Reclamation Fund; \$1,442,285.63 to the War Department; \$490,177.19 to States; \$5,583.39 to the Oregon and California land grant funds, and \$1,605,678.06 to the General Fund of the Treasury.

Water power, most people seem to think, is limitless and inexhaustible. It is neither. Vast as are our resources in streams, falls and rapids, we know that they are distinctly limited. Furthermore, they are unevenly distributed. Two-thirds of the potential powers are in Western states which consume perhaps a fifth of the country's production. Only eleven per cent is in the Central States, and an even less percentage in the densely populated manufacturing centers of the Northeast. Authorities disagree as to the potential power that can be developed economically. Computations have been made from so many different standpoints and vary so widely that none of the figures can be considered final.

Finding out what these resources are, listing our power possibilities, developed and potential, and planning for their coordination and economic development is the purpose of the National Power Survey, directed by Executive Order of President Roosevelt, and now in progress under the direction of the Federal Power Commission.

Two other inquiries of national scope are also under way under the same auspices. One is an investigation of the cost of electric distribution. Perhaps of most interest to the general public is another, the Electric Rate Survey, compiling the rates paid in cities, towns and rural communities throughout the United States, in order that intelligent comparison may be made between rates in localities similarly situated.

These are in addition to the regular work of the Commission in investigating applications, surveying sites for the best schemes of development, determining actual investment and granting licensees for development, which it has carried on steadily for fourteen years.

# The New Deal and the National Power Problem

## I President Roosevelt's Declaration of Policy

## II The Administration Program

### I President Roosevelt's Declaration of Policy

I HAVE strengthened the belief that I have had for a long time, and that I constantly set forth in my speeches and papers in my work as Governor of the State of New York, that the question of power, of electrical development and distribution is primarily a national problem.

As I see it, the object of government is the welfare of the people. The liberty of people to carry on their business should not be abridged unless the larger interests of the many are concerned. The interests of the few must yield. It is the purpose of government to see not only that the legitimate interest of the few are protected but that the welfare and rights of the many are conserved. These are the principles which we must remember in any consideration of this question. This, I take it, is sound government—not politics. Those are the essential basic conditions under which government can be of service.

When the great possessions that belong to all of us—that belong to the nation—are at stake, we are not partisans, we are Americans.

This subject has been discussed so much in complex language, in terms which only a lawyer can understand, or in figures which only accountants can understand, that there is need for bringing it back into the realm of simple, honest terms understood by millions of our citizens.

This is particularly true because there has not only been lack of information—and information difficult to understand—but there has been in the past few years, as the Federal Trade Commission has shown, a systematic, subtle, deliberate and unprincipled campaign of misinformation, of propaganda, and, if I may use the words, of lies and falsehood.

The spreading of this information has been bought and paid for by certain great private utility corporations. It has permeated the schools, the editorial columns of newspapers, the activities of political parties, the universities and the printed literature in our book stores.

Let us go back to the beginning of this subject. What

is a public utility? Let me take you back 300 years to old King James of England. The reign of this King is remembered for many great events, two of them in particular. He gave us a great translation of the Bible and through his chancellor, a great statement of public policy. It was in the days when Shakespeare was writing Hamlet and when the English were settling Jamestown, when a public outcry arose in England from travelers who sought to cross the deeper streams and rivers by means of ferry-boats.

Obviously these ferries, which were needed to connect the highway on one side with the highway on the other, were limited to specific points. They were, therefore, monopolistic in their nature.

The ferryboat operators, because of the privileged position which they held, had the chance to charge whatever the traffic would bear, and bad service and high rates had the effect of forcing much trade and travel into long detours or to the dangers of attempting to ford the streams.

The greed and avarice of some of these ferryboat owners was made known by an outraged people to the King, and he invited his great judge, Lord Hale, to advise him.

The old law lord replied that the ferrymen's business was quite different from other businesses, that the ferry business was, in fact, vested with a public charter, that to charge excessive rates was to set up obstacles to public use, and that the rendering of good service was a necessary and public responsibility.

"Every ferry," said Lord Hale, "ought to be under a public regulation, to wit, that it give attendance at due time, keep a boat in due order and take but reasonable toll."

In those simple words, Lord Hale laid down a standard which, in theory at least, has been the definition of common law with respect to the authority of government over public utilities from that day to this.

With the advance of civilization, many other necessities of a monopolistic character have been added to the list of public utilities—such necessities as railroads, street railways, pipelines and the distribution of gas and electricity.

The principle was accepted, firmly established, and became a basic part of our theory of government.

The next problem was how to be sure that the services of this kind should be satisfactory and cheap enough, while, at the same time, making possible the safe investment of new capital.

For more than two centuries the protection of the public was through legislative action, but, with the growth of the use of public utilities of all kinds, a more convenient, direct and scientific method had to be adopted—a method which you and I know as control and regulation by public service or public utility commissions.

Let me make it clear that I have no objection to the method of control through a public service commission. It is, in fact, a proper way for the people themselves to protect their interests.

In practice, however, it has in many instances departed from its proper sphere of action and, I may add, from its theory of responsibility.

It is an undoubted and undeniable fact that, in our modern American practice, the public service commissions of many States have often failed to live up to the high purpose for which they were created.

In many instances their selection has been obtained by the public utility corporations themselves. These corporations have often influenced, to the prejudice of the public, the actions of public service commissions.

Moreover, some of the commissions have, either through deliberate intent or through sheer inertia, adopted a theory, a conception, of their duties wholly at variance with the original object for which they were created.

Let me illustrate: When I became Governor I found that the Public Service Commission of the State of New York had adopted the unwarranted and unsound view that its sole function was to act as an arbitrator or a court between the public on the one side and the utility corporations on the other.

I thereupon laid down a principle which created horror and havoc among the Insulls and other magnates of that type. I declared that the Public Service Commission is not a mere judicial body to act solely as umpire between complaining consumer or complaining investor on the one hand and the great public utility system on the other hand.

I declared that, as the agent of the Legislature, it has delegated authority to act as the agent of the public; that it is not a mere arbitrator, as between the people and the public utilities, but was created for the purpose of seeing that the utilities do two things: First give service, second charge reasonable rates; that, in performing this function, it must act as agent of the public upon its own initiative as well as upon petition to investigate the acts of public utilities relative to service and rules and to enforce adequate service and reasonable rates.

The regulating commission must be a tribune of the people, putting its engineering, accounting, legal resources into the breach for the purpose of getting the facts and doing justice to both the consumers and investors in public utilities.

This means positive and active protection of the people against private greed.

So much for the simple, clear, definite theory of regulation—a theory which today is honored more in the breach than in the observance.

Now I come to another principle which in spite of having been befogged and beclouded by many utility companies—and, I am sorry to say, by many of our courts as well—is nevertheless clear and simple when you get down to the roots of it.

The ferryman of old, under King James, through regulation and control of the government, was compelled to give good service for a fair return on his labor and his property. It is only in recent days that the direct descendants of the ferryman have in hundreds of cases found ways of paying to themselves inordinate and unreasonable profits and overcapitalizing their equipment, three, five—yes even ten—times the money which they themselves have put into it.

I am not going to confuse the issue by setting forth a

lot of figures, but I do ask you to remember a few facts which are so tremendously important in our economic life.

Senator Norris, using the figures of the Federal Trade Commission, summarized this in a great speech in the Senate of the United States. He pointed out the over-capitalization of many companies by name in definite figures and summed up the discussion by setting forth in round numbers these main companies had been found to be overcapitalized to the extent of \$520,000,000.

This means that the people of the United States were called upon to supply profits upon this amount of watered stock. It meant that some one was deriving profits from the capitalization into which they had put no substantial capital. It meant that the people had to pay these unjust profits through higher rates.

Electricity is no longer a luxury, it is a definite necessity. It lights our homes, our places of work and our streets.

It turns the wheels of most of our transportation and our factories. In the home it serves not only for light, but it can become the willing servant of the family in countless ways. It can relieve the drudgery of the housewife and lift the great burden off the shoulders of the hard-working farmer.

I say "can become" because we are most certainly backward in the use of electricity in our American homes and on our farms. In Canada the average home uses twice as much electric power per family as we do in the United States.

What prevents our American people taking full advantage of this great economic and human agency?

The answer is simple. It is not because we lack undeveloped water power or unclaimed supplies of coal and oil.

The reason that we cannot take advantage of our own possibilities is frankly and definitely because many selfish interests in control of light and power industries have not been sufficiently far-sighted to establish rates low enough to encourage widespread public use. The price you pay for your utility service is a determining factor in your use of it.

Low prices to the domestic consumer will result in his using far more electrical appliances than he does today. Again let me speak plainly. Through lack of vigilance in State capitals and in the national government, we have allowed many utility companies to get around the common law, to capitalize themselves without regard to actual investment in property, to pyramid capital through holding companies and without restraint of law, to sell billions of dollars of securities which the public have been falsely led into believing were properly supervised by the government itself.

The crash of the Insull empire has given excellent point to the truth of what I have been arguing for a long time.

The great "Insull monstrosity," made up of a group of holding and investing companies and exercising control over hundreds of operating companies, had distributed securities among hundreds of thousands of investors, and had taken their money to an amount running over one and a half billions of dollars.

The "Insull monstrosity" grew during the years of prosperity until it reached a position where it was an important factor in the lives of millions of people. The

name was magic. The investing public did not realize then, as it does now, that the methods used in building up these holding companies were wholly contrary to every sound public policy.

They did not realize that there have been arbitrary write-ups of assets, inflation of vast capital accounts; they did not realize that excessive prices had been paid for property acquired. They did not realize that the expense of financing had been capitalized. They did not realize that payments of dividends had been made out of capital.

They did not realize that some subsidiaries had been milked and milked to keep alive the weaker sisters in the great chain. They did not realize that there had been borrowings and lendings, an interchange of assets, of liabilities and of capital between the component parts of the whole. They did not realize that all these conditions necessitated terrific overcharges for service by these corporations.

The Insull failure has opened our eyes. It shows us that the development of these financial monstrosities was such as to compel ultimate ruin; that practices had been indulged in that suggest the old days of railroad wildcatting; that private manipulation had outsmarted the slow-moving power of government.

As always, the public paid and paid dearly. As always, the public is beginning to understand the need for reform after the same public has been fleeced out of millions of dollars.

I have spoken of a "new deal" for the American people. I believe that that "new deal" can be applied very definitely to the relationship between the electric utilities on the one side and the consumer and the investor on the other.

True regulation is for the equal benefit of the consumer and the investor, and the only man who will suffer from true regulation is the speculator or the unscrupulous promoter who levies tribute equally from the man who buys the service and from the man who invests his savings in this great industry.

I seek to protect both the consumer and the investor. To that end I propose and advocate now, as I have proposed and advocated heretofore, the following remedies, on the part of the government for the regulation and control of public utilities engaged in the power business and companies and corporations relating thereto:

1. Full publicity as to all capital issues of stocks, bonds and other securities, liabilities and indebtedness, and capital investment, and frequent information as to gross and net earnings.
2. Publicity on stock ownership of stocks and bonds and other securities, including the stock and other interest of all officers and directors.
3. Publicity with respect to all inter-company contracts and services and interchange of power.
4. Regulation and control of holding companies by the Federal Power Commission and the same publicity with regard to such holding companies as provided for the operating companies.
5. Cooperation of the Federal Power Commission with public utilities commissions of the several States, obtaining information and data pertaining to the regulation and control of such public utilities.
6. Regulation and control of the issue of stocks and

bonds and other securities on the principle of prudent investment only.

7. Abolishing by law the reproduction cost theory for rate making and establishing in place of it the actual money, prudent-investment principle as the basis for rate making.

8. Legislation making it a crime to publish or circulate false or deceptive matter relating to public utilities.

I now come to the other great problem of the relationship of the government to the development through government itself of power resources and power manufacture.

I do not hold with those who advocate government ownership or government operation of all utilities. I state to you categorically that as a broad general rule the development of utilities should remain, with certain exceptions, a function for private initiative and private capital.

But the exceptions are of vital importance, local, State and national, and I believe that the overwhelming majority of the people of this country agree with me.

Again we must go back to first principles: a utility is in most cases a monopoly, and it is by no means possible in every case for government to insure at all times from mere inspection, supervision and regulation that the public should get a fair deal—in other words, to insure adequate service and reasonable rates.

I therefore lay down the following principle: That where a community, a city or county or a district is not satisfied with the service rendered or the rates charged by the private utility, it has the undeniable right as one of its functions of government, one of its functions of home rule, to set up, after a fair referendum has been taken, its own governmentally-owned and operated service.

That right has been recognized in most of the States of the Union. Its general recognition by every State will hasten the day of better service and lower rates.

It is perfectly clear to me and to every thinking citizen that no community which is sure that it is now being served well and at reasonable rates by a private utility company will seek to build or operate its own plant.

But on the other hand, the very fact that a community can, by vote of the electorate, create a yardstick of its own, will, in most cases, guarantee good service and low rates to its population. I might call the right of the people to own and operate their own utility a "birch rod in the cupboard, to be taken out and used only when the child gets beyond the point where mere scolding does any good."

That is the principle that applies to communities. I would apply the same principles to the Federal and State Governments.

State-owned or Federal-owned power sites can and should properly be developed by government itself. When so developed, private capital should be given the first opportunity to transmit and distribute the power on the basis of the best service and the lowest rates to give a reasonable profit only.

The right of the Federal Government and State Governments to go further and to transmit and distribute where reasonable and good service is refused by private capital gives to government, viz., the people, that same very essential "birch rod" in the cupboard.—*Extracts, see 1, p. 256.*

## II The Administration's Program

### a. Established Federal Power Projects

### b. Proposed Power Developments on The St. Lawrence

### c. The National Power Policy Committee

*Fort Peck Dam*, Montana. Primarily to aid navigation on the Missouri River and also for the development of power. Estimated cost, \$84,000,000; allotted by PWA, \$50,000,000. (Army Engineers.)

*Arizona-Wyoming-Idaho*. Three projects promoted by PWA.

(a) Verde project in Arizona. Estimated cost, \$18,912,000. Initial PWA allotment, \$4,000,000.

(b) Casper-Alcova project in Wyoming. Estimated cost, \$22,700,000. PWA allotment, \$12,200,000.

(c) Owyhee project—Idaho-Oregon. Estimated cost, \$18,000,000. PWA allotment, \$6,500,000.

*Loup River Project*. Nebraska. PWA loan and grant of \$7,300,000.

### a. Established Federal Power Projects

*The Tennessee Valley Authority (TVA)*. Created by an Act of Congress, approved by President Roosevelt May 18, 1933, which empowered the Authority, a corporation, to generate and sell power to build dams, power plants, and transmission lines, develop fertilizers and to work out, under the immediate direction of the President, "a program of social and economic welfare of the region and the nation, including soil erosion, forestry, the balancing of agriculture and industry, the better and fuller use of mineral resources, and such problems as the vocational adjustment of unemployed men and women to new and more productive fields of work."

The TVA is administered by a board of three directors, Arthur E. Morgan, Chairman; Dr. Harcourt A. Morgan, and David E. Lilienthal. The TVA Act provides that the directors "must be citizens of the United States and profess a belief in the feasibility and wisdom" of the provisions of the Act.

The Muscle Shoals, Alabama, project was turned over to the TVA. The entire cost of the project is estimated at \$400,000,000. Two subsidiary corporations have been organized under TVA: The Electric Home and Farm Authority, Inc., to finance consumers in the purchase of electric appliances; and the Tennessee Valley Associated Cooperatives, to organize cooperatives in the Tennessee Valley. The States included in the Tennessee Valley territory are West Virginia, Kentucky, Tennessee, North Carolina, Mississippi, Alabama and Georgia.

*Boulder Dam Project*. Authorized by Congress in 1928, and now in construction, is also now being financed by PWA. The total estimated cost of the entire project is 165 million dollars, of which approximately 109 million represents the cost of the dam and power plant.

*Grand Coulee Dam*, Columbia River, Washington. Estimated cost, \$63,000,000, of which a first installment of \$15,000,000 has been allocated by PWA.

*Bonneville Dam*, Columbia River, Oregon. Estimated cost, \$40,200,000; allotted by PWA, \$31,247,000 (Army Engineers).

### b. Proposed Power Developments on the St. Lawrence

#### The President's Recommendation To Congress

It is, I believe, a historic fact that every great improvement directed to better commercial communications, whether in the case of railroads into new territory, or the deepening of great rivers, or the building of canals, or even the cutting of the Isthmus of Panama, have all been subjected to opposition on the part of local interests which conjure up imaginary fears and fail to realize that improved transportation results in increased commerce benefiting directly or indirectly all sections.

For example, I am convinced that the building of the St. Lawrence Seaway will not injure the railroads or throw their employees out of work; that it will not in any way interfere with the proper use of the Mississippi River or the Missouri River for navigation. Let us be wholly frank in saying that it is better economics to send grain or other raw materials from our Northwest to Europe via the Great Lakes and St. Lawrence than it is to send them around three sides of a square—via Texas ports or the Mississippi, thence, through the Gulf of Mexico and thence, from the southern end of the North Atlantic to its northern end. In this illustration, it is well to remember that a straight line is the shortest distance between two points.

I am satisfied that the treaty contains adequate provision for the needs of the Chicago Drainage District and for navigation between Lake Michigan and the Mississippi River. A special report from the Chief of Engineers of the War Department covers this subject.

On the affirmative side, I subscribe to the definite belief that the completion of the seaway will greatly serve the economic and transportation needs of a vast area of the United States and should, therefore, be considered solely from the national point of view.

The other great objective provided for in the treaty relates to the development of electric power. As you know, I have advocated the development of four great power areas in the United States, each to serve as a yardstick and each to be controlled by government or governmental agencies. The Tennessee Valley plants and projects in the Southeast, the Boulder Dam on the Colorado River in the Southwest, the Columbia River projects in the Northwest are already under construction. The St. Lawrence development in the Northeast calls for action. This river is a source of incomparably cheap power located in proximity to a great industrial and rural market and within transmission distance of millions of domestic consumers.

Power in the international sector of the St. Lawrence cannot be developed without a treaty between the United States and Canada. On the other hand, Canada can develop a huge block of new power at the two other rapids which lie wholly within Canadian territory. Here again, as in the case of navigation, it is better in every way that we should maintain the historic principle of accord with Canada in the mutual development of the two nations.

I have not stressed the fact that the starting of this great work will put thousands of unemployed to work. I have preferred to stress the great future advantages to our country and especially the fact that all of us should view this treaty in the light of the benefits which it confers on the people of the United States as a whole.—*Extracts, see 2, p. 256.*

### c. The National Power Policy Committee

ON July 16, 1934, President Roosevelt established in the Public Works Administration the "National Power Policy Committee."

Secretary of the Interior Ickes was named Chairman of this Committee, the membership of which is composed of:

Dr. Elwood Mead, of the Bureau of Reclamation.

Frank R. McNinch, Chairman of the Federal Power Commission.

Morris L. Cooke, of the Mississippi Valley Committee, PWA.

Major General Edward M. Markham, Chief of Engineers, War Department.

Robert E. Healy, of the Federal Stock Exchange Commission.

David E. Lilienthal, of the Tennessee Valley Authority.

T. W. Norcross, Assistant Forester of the Forest Service.

In the following letter from the President to Secretary Ickes under date of July ninth the purpose and duties of this Committee are outlined:

"I wish to establish in the Public Works Administration a Committee to be called the "National Power Policy Committee." Its duty will be to develop a plan for the closer cooperation of the several factors in our electrical

power supply—both public and private—whereby national policy in power matters may be unified and electricity be made more broadly available at cheaper rates to industry, to domestic and, particularly, to agricultural consumers.

"Several agencies of the government, such as the Federal Power and Trade Commissions, have in process surveys and reports useful in this connection. The Mississippi Valley Committee of Public Works is making studies of the feasibility of power in connection with water storage, flood control and navigation projects. The War Department and Bureau of Reclamation have under construction great hydro-electric plants. Representatives of these agencies have been asked to serve on the committee. It is not to be merely a fact-finding body, but rather one for the development and unification of national power policy.

"As time goes on there undoubtedly will be legislation on the subject of holding companies and for the regulation of electric current in interstate commerce. This committee should consider what lines should be followed in shaping up this legislation. Since a number of the States have commissions having jurisdiction over intrastate power matters, it is necessary that whatever plan is developed should have regard to the powers of these various State commissions as well as the States in general.

"It is not thought that it will be necessary to have frequent meetings of the full Committee. An adequate administrative staff will be provided, and personal expenses of the members of the Committee in connection with its meetings will be met.

"The Committee is to be advisory to the President. I hope that you will accept membership on this Committee and act as its Chairman."—*Extracts, see 3, p. 256.*

### Location of Water Power and Coal in the United States

SIXTY per cent of the country's potential water power is located in six States—California, Oregon, Washington, Montana, Wyoming and Idaho (40 per cent in the three first named). Colorado, Arizona and Utah contain 10 per cent; so that nine States account for 70 per cent, 8 per cent of the total is found in the Northeast, 12 per cent in the area East of the Mississippi and South of the Ohio.

Eighty per cent of our bituminous coal production is mined in six States—Pennsylvania, Ohio, Indiana, Illinois, West Virginia and Kentucky. Fifty per cent is used in the first four of these States and in New York.

"The major water-power areas are in the West and the major steam-power areas are in the East. Coal will, therefore, be the prime producer of energy in the East for generations to come, even allowing for the fullest development of Eastern water-power sites." (J. G. Kerwin, "Federal Water-Power Legislation.")

# Will Government Operation of Power Utilities Benefit the Public?

PRO

Arguments Favoring

SCIENTIFIC ingenuity has demonstrated that in the electrical world, where electricity must be distributed and must be used at the time it is generated, and on account of the peculiar and various uses to which it is put, it naturally follows that to get the most economical results we must have monopoly.

But my contention has always been if that monopoly were turned over to private parties for private gain, the people would not get the benefit of reduced rates. In other words, when electricity becomes common in every home, as it will, and as necessary as water to drink, if we are subjected to the will and wish of a giant monopoly that reaches from the Canadian boundary to the Gulf of Mexico and from ocean to ocean, we will in reality to a great degree, be slaves. We will be subject to the will and wish, the whim and caprice of a monopoly, the magnitude of which stretches the imagination to comprehend.

An illustration of a giant monopoly is the one which is owned and operated by governmental authority, a monopoly for the generation and distribution of electric current covering the entire Province of Ontario, Canada, where all the cities, all the towns, all the villages, and all the farm organizations are coupled into one grand system.

First, let me tell briefly just what the method of procedure is in Ontario, Canada. About 20 years ago some business men in Canada, manufacturers mostly, and also representatives of municipalities, met and decided to organize certain municipalities into one great consolidated concern, a sort of partnership, as it were, designed to furnish electricity at cost to the people. After two or three years of agitation they succeeded in having passed through the provincial legislature of Ontario a law which provided for a system of generation and distribution of electricity at actual cost to the consumer. The law provided that there should be organized a kind of wholesale corporation, to be known as the hydroelectric commission. Its business was to generate electricity and to carry it over transmission lines to the various municipalities which wanted to go into the partnership. The law provided for the buying of existing generating plants or the construction of new ones; for the issuing of bonds by the wholesale corporation, and the distribution of current to various municipalities. The law further provided that any municipality which desired to secure electricity from the commission must itself provide for its local distribution, attend to the collection of the charges and fees incident to the operation of the local system; so that each municipality was to be independent in itself, with some exceptions as to regulations, but all together should utilize the one wholesale system of generation and distribution. The municipalities did not generate their electricity; they

by

Hon. George W. Norris  
U. S. Senator, Nebraska  
Republican

bought it from the wholesale corporation.

The law provided that each municipality should pay in proportion to the amount of electricity which it consumed; that it should make a sufficient charge to the consumer to provide for the bonds which were issued locally; that upkeep should be provided for; should be looked after; and that an amortization fee should be set aside every year which within 30 years should pay off the investment. Similar provisions attached to the parent corporation. So there was the system.

that depreciation should be looked after; and that an amortization fee should be set aside every year which within 30 years should pay off the investment. Similar provisions attached to the parent corporation. So there was the system.

The originators were quite a number of years getting it started. There was a great contest, there was a bitter struggle as there has been in this country wherever Government operation has been proposed. Up to that time nobody had thought about the farmer. Two or three years after the enterprise was started the various municipalities that had stayed out commenced to tumble over each other to get in, when they saw the benefit of the system; and when they did get in they increased the benefits, of course, that much more.

Then the farmer came in. He saw what the man in the town was getting. He sometimes visited the city homes and saw the housewife in the little home; in the laboring man's home, perhaps, cooking his meals by electricity; he saw that the bath water and the dishwater were heated by electricity; he saw the toaster, the electric fan, and all the other electric devices for the home being used at a fractional part of the cost that had theretofore been paid. The farmer wanted a similar advantage; he asked for some of it; and everybody conceded that he ought to have something of that kind. So a few years after the enterprise was started and in operation the provincial legislature of Ontario, Canada, passed a law that let the farmer in.

To begin with, the law was amended and provision was made so that farmers could organize as could municipalities, could elect their officers, issue bonds, install systems, and buy electricity just as the municipalities did of the wholesale corporation, the hydroelectric commission. The law provided that the farmer could come in on the same basis as did everybody else, with one exception that I am going presently to note. The farmers had to issue their bonds in order to get the money to put in their distributing systems; they had to provide for the necessary officials and employees to present the bills and collect them every month and to make the proper returns. They had to provide in the rates charged for an amortization fund, just as in the case of the municipalities, so that the indebtedness would be paid off in 30 years. They

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# Will Government Operation of Power Utilities Benefit the Public?

## Arguments Opposing

THE Coal Industry opposes the grandiose program and ruinous policy of the Federal water power development because its consumption is calculated:

To destroy the market for millions of tons of coal;

To put hundreds of thousands of men out of employment permanently;

To further impair railroad revenues permanently;

To duplicate and in many instances to destroy existing facilities for the production and distribution of electricity;

To inflict incalculable injury upon both capital and labor in public utilities, in mines, in railroads, and upon those engaged in the distribution and sale of coal, gas, lumber, ice and sundry other lines;

To lay further heavy burdens both unwarranted and unnecessary upon the American taxpayer by adding a billion dollars or more to the public debt;

And, because this water power development program is social folly and economic waste, of which the Tennessee Valley Authority "experiment" is only the starter, and threatens to encompass the nation.

The TVA is a government corporation, managed by a board of three directors named by the President and answerable only to him, and operating wholly independently of any government department, bureau or other federal agency.

TVA received from Congress Muscle Shoals, the plant and property of which cost \$127,000,000; a cash appropriation of \$50,000,000, and a bond authorization of \$50,000,000.

TVA has commenced construction of two additional dams, aggregate cost, 72 million dollars; has proposed to start construction of four more dams, aggregate cost, 115 million dollars; has commenced a 10 million dollar fertilizer experiment; built a 2½ million dollar model town; built a million dollar model highway.

It has organized the following subsidiary companies: The Electric Home and Farm Authority, Inc., which received \$1,000,000 from PWA and \$10,000,000 credit from RFC; The Tennessee Valley Associated Cooperatives, Inc., which received \$300,000 from FERA.

It has received an additional 25 million dollars by administrative order out of the new emergency relief and public works funds appropriated by Congress (June, 1934).

It has laid down a "five-year program" the execution of which contemplates cash outlays of 72 million dollars for 1935; 56 million dollars for 1936; 41 million dollars for 1937; 45 million dollars for 1938; 40 million dollars for 1939.

The Tennessee Valley Area comprises 350,000 square miles within the States of Alabama, Mississippi, Georgia,

by  
The National Coal  
Association

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Tennessee, Kentucky, North Carolina and South Carolina.

President Roosevelt, in his message to Congress requesting legislation to create the TVA, said:

"The continued idleness of a great national investment in the Tennessee Valley leads me to ask Congress for legislation necessary to enlist this project in the service of the people."

TVA, according to Chairman Morgan, has not yet completed its appraisal of the "great national investment" at Muscle Shoals and a determination of its fair present value as the corner stone of the TVA power project. In testifying before the House Appropriations Committee in May, 1934, Chairman Morgan said his "guess" as to its present worth was "20 million dollars."

TVA's program, so far as it relates to power, resolves itself into the proposition of spending 300 million dollars of new money incident to the salvage and profitable employment of a national investment of a present worth of 20 million dollars. It would be hard to find a more flagrant example of the tail wagging the dog.

The Tennessee Valley Authority was created by Act of Congress May 18, 1933, "for the purpose of maintaining and operating the properties now owned by the United States in the vicinity of Muscle Shoals, Alabama, in the interest of national defense and for agricultural and industrial development, and to improve navigation in the Tennessee River, and to control the destructive flood waters in the Tennessee River and Mississippi River basins."

The TVA has many other irons in the fire besides power development, navigation, national defense, nitrates and fertilizer experimentation. Its program of social and economic uplift, in the estimation of its promoters, is its most significant and far-reaching aspect.

Congress transferred to the TVA "the great national investment" at Muscle Shoals comprising Wilson Dam and hydro plant, steam plant and nitrate plants, and authorized and directed the construction of Cove Creek Dam, rechristened the Norris Dam (estimated cost, 34 million dollars). TVA started at once the construction of Norris Dam and of a 280-mile transmission line to connect Wilson and Norris dams. The No. 3 dam—Joe Wheeler Dam, also now under construction, was started by the TVA independent of Congressional approval last November. (Estimated cost, 38 million dollars.)

An immediate start on the construction of four more dams is now announced by TVA. These four additional hydro-electric projects (making a total of seven) are now to be initiated notwithstanding that TVA Chairman Mor-

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had to provide for the payment of interest and for their share of the interest on the bonds of the wholesale company. They also had to provide for depreciation and upkeep.

It was realized that one of the things that stood in the way of farmer organizations securing this cheap electricity was the increased cost of the distributing lines, as compared to the distributing systems of the municipalities. In the city or village there would be two dozen or more houses, perhaps, in one block, but out in the country for a distance of several miles, perhaps, there would be not more than four or five farmers who would take the electricity. So the cost of the construction of the distributing system was something which had to be contended with. The legislature, desirous, and very properly so I think, of giving to the rural population in the Province of Ontario the same facilities which the people of the cities and villages enjoyed, made a provision in the law that, as to every rural organization so constituted under the law, one-half of the cost of the transmission lines should be borne by general taxation. That is the only place in the entire system, either rural or municipal, where the taxpayers of Canada have ever paid one cent toward this great system that now gives them such universal service.

I made many investigations concerning conditions as affecting the farmers in Ontario and some farmers on the New York side. I spent all night with a farmer just this side of Niagara Falls who was getting his electricity, as were several of his neighbors, from Niagara Falls.

The wife had in her home almost every known kind of household electrical device of which one could think. She heated her dishwater by electricity; she heated the bath water by electricity; she cooked the year around by electricity; she did not have any other kind of cooking stove in her house; and the farmer milked his cows by electricity. He ran a dairy and milked 17 cows, as I remember. He filled his silo by electricity; he pumped water both for the barn and for the house by electricity. It was available all through his barn; water was supplied to his cows by electricity without taking them out of the stall. It was automatic. He told me that it saved him the price of a hired man, and that it saved his wife the price of a hired girl. I have forgotten the exact amount of money that that cost him the year before. He had his bills there and showed them to me; but it was under \$80. As I remember, it was seventy-nine dollars and some cents for a whole year of that service.

When anybody talks about paying electric rates out of taxation up in Canada, there is nothing to it. The only thing in the entire system is the payment of one-half the cost of construction of rural lines; and that has no application to a municipality. That has no application to this parent wholesale concern that supplies all of them with their current. It applies only to the farmer; and it does not apply to the farmer except as to paying one-half of the original cost of the installation of these transmission lines. That is all there is to it.

This parent company pays taxes in Canada. The municipalities, of course, in their local distributing systems, pay no taxes; that is true; but every one of them pays an amortization fee, while not a single man

paying for electric light in New York pays such a fee. In Toronto, every man who has electric service pays a fee that in 30 years will pay off the entire debt incurred for the installation of their system.

In Toronto in 1926 the average cost for domestic service—that is, in the homes—for electric light during that year was 1.63 cents per kilowatt-hour.

The average cost to all the consumers in the city of Toronto in 1926 for domestic service, including the service charge and everything, was 1.63 cents per kilowatt.

The average cost to the stores, the commercial users in Toronto, during the same year, was 2½ cents per kilowatt-hour.

The average cost to the power users in that city during 1926 was \$24.51 per horsepower per year.

There you have it for power, commercial service, and domestic service—the only three classes of service that they have, and that includes everybody. Compare that with the rate anywhere else on earth.

Some day we are going to have a system such as Canada has; some day this old world is going to reach the point where we are going to have electricity in every home the same as we have water; some day it is going to be on every farm; some day every stream that trickles down the mountain side is going to perform service for mankind; some day there will not be a home, either in the country or in the city, but will be supplied by electricity; and all the uses that we know now and those that may be invented in the future will be available to humanity. We can not escape that; it is as sure as is the law of gravitation.

A good illustration of what has been accomplished in municipally owned generating and distributing plants in the United States is afforded by the city of Seattle, in the State of Washington.

The Stone & Webster Co., the owners of a private system that was in operation before the municipal plant was put in, and is still in operation, filed as their cost, exclusive of interest charges and depreciation, \$1,502,158.41 for the serving of 39,795 customers in the Seattle District—that is, King County—while the cost of the municipal plant only amounted to \$1,309,862.33 for serving 83,228 customers; that is, \$200,000 less to serve twice the number of customers.

Compare those figures and see whether there is any consolation in the claim that private operation, with a beautiful private initiative, has advantages over the municipal plant, properly managed and properly operated.

Again, in these charges made by the municipal plant of Seattle there is an item amortizing the cost, doing away with the capital cost, which will eventually wipe it out entirely.

The history of operations in Seattle is exceedingly interesting. Suppose we take a bill for 519 kilowatt-hours used in one month, which would be a big consumption. Under the privately owned company in Aberdeen, Wash., that amount of electricity would cost the consumer \$32.40. In Wenatchee that energy would cost \$22.03. In Yakima it would cost \$19.03. In Walla Walla it would cost \$15.80.

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## Nat'l Coal Ass'n., Cont'd

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gan, in testifying before the House Appropriations Committee in May, 1934, concedes:

That there is available power enough already in the Tennessee Valley area to take care of present demand.

That it is "impossible at the present time" to make any survey to ascertain when and where the additional power will find a market.

That he has no figures on receipts from sale of power on the basis of a completed seven-dam project of two million kilowatt capacity.

That he has not calculated the total income that will be necessary to meet the carrying charges and to amortize the cost.

That it will be "some time" before the five-year power program will be self-sustaining and returning its cost.

The construction of six hydro-electric dams and power plants at an estimated cost of 200 million dollars (in addition to the original "great national investment" at Muscle Shoals), plus transmission lines and distributing systems of indeterminate extent and cost, but to which the TVA tentatively assigns the figure of 100 million dollars, makes the total estimated new cost of the "immediate" TVA water power program 300 million dollars. TVA intends, however, to charge one-third of this to navigation and flood control.

The ultimate power promotion program of the TVA does not stop with seven dams and 300 million dollars and a couple of million kilowatts in an area already over-supplied with electric power through the existing facilities of the private companies. TVA Chairman Morgan dreams of the future. In his recent testimony, answering a question as to whether seven dams and 300 million dollars was the whole story so far as TVA's power operations were concerned, he said:

"There are a dozen other sites which, if in 15 years from now we run short of power, could be utilized and we could come back (to Congress) and ask, 'What about these?' \* \* \* Twenty or thirty dams would be required to completely develop the resources of the Tennessee River."

Chairman Morgan concedes that the TVA's tremendous power expansion "may cause temporary disadvantage to the power companies immediately surrounding us" (seven States) and "will restrict at first the use of bituminous coal," to say nothing of what it will cost the American taxpayers.

TVA, contemplating its ruthless projected annihilation of existing coal markets, proposes to seek to discover new uses and new markets for coal through "cooperative" research. Chairman Morgan proposes to take from the industry the substance of reality—present prime demand for coal—and give the industry in exchange the shadow of undeveloped and undiscovered future markets.

The efforts to put "order and design" into living in the Tennessee Valley embrace a wide variety of social and economic undertakings.

"Experimental" manufacture of fertilizer in conjunction with the Muscle Shoals nitrate plants was expressly directed by Congress, and the TVA is proposing to spend ten million dollars on that score. But as for soil erosion, reforestation, education, industrial promotion, retail mer-

chandising, agricultural regimentation, and other activities upon which TVA is now embarked, either directly or through the subsidiary corporations which it is spawning, and either with its own money or with funds drawn from other government agencies, there is neither time limit nor money limit.

TVA will acquire 500,000 acres of land at a cost of between 15 and 30 millions of dollars. It proposes to transplant entire communities; to import into the Tennessee Valley, either from elsewhere in this country or from abroad, entire industries.

Model roads, model schools, model villages, model homes, rural electrification, sanitation—all have their place in the TVA scheme.

The installed capacity of existing electrical power plants in North Carolina, South Carolina, Georgia, Kentucky, Tennessee, Alabama and Mississippi (at end of 1932) was 3,205,600 kilowatts, capable of delivering (at 50 per cent utilization) annually 14,040,526,000 kw. hours per year.

The entire TVA system, as now planned, will have an installed capacity (according to Chairman Morgan) of approximately 2,000,000 kilowatts, capable of delivering (at 50 per cent utilization) annually 8,760,000,000 kw. hours per year.

The actual generation of electrical energy (in 1932) in the seven States above named was 6,362,219,000 kw. hours.

There is no escape from these figures. They show that existing installed capacity exceeds by more than 100 per cent current demand and consumption.

That for every kilowatt hour consumed two kilowatt hours are already available.

That TVA contemplates duplicating more than 60 per cent of the existing power generation facilities. And itself generating more power than the total present demand in the entire area.

That if present power consumption was doubled, existing power generation facilities are still ample to supply this increased consumption, with a wide margin over.

That power consumption in the TVA area will have to increase over 3½ times its present volume to provide a market for all present power there plus all that TVA proposes to develop.

The Tennessee Valley abounds in low cost coal in unlimited quantity. The cost of generating hydro electric power in the Valley is relatively high—some engineers have estimated that TVA power will be the most costly hydro power ever developed. These factors combine to give a heavy advantage to the use of coal in any cost comparison of steam power and water power in the TVA area.

The cost of electricity from a steam plant is compounded of interest and sinking fund charges on a relatively small capital investment plus fuel and operation charges.

The cost of water power electricity is compounded of interest and sinking fund charges on a huge capital in-

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Norris, *Cont'd*

In Everett it would cost \$17.55. In Spokane it would cost \$16.34, and incidentally, Spokane has within its very limits one of the greatest water powers on earth, one that would turn every wheel and light every house in that city, at a rate that ought to be between 1 and 2 cents a kilowatt-hour, but privately owned, and what do they pay there? It would cost, as I have said, \$16.34. What would it have cost in Seattle with a municipally owned plant? It would have cost \$8.98.—*Extracts, see 4, p. 256.*

by Arthur E. Morgan  
Chairman, T. V. A.

THE business of generating and distributing electric power is a public business.

Private and public interests in the business of power are of different kind and quality, and should not be confused.

The interest of the public in the widest possible use of power is superior to any private interest. Where the private interest and this public interest conflict, the public interest must prevail.

Where there is a conflict between public interest and private interest in power which can be reconciled without injury to the public interest, such reconciliation should be made.

The right of a community to own and operate its own electric plant is undeniable. This is one of the measures which the people may properly take to protect themselves against unreasonable rates. Such a course of action may take the form of acquiring the existing plant or setting up a competing plant, as circumstances may dictate.

The fact that action by the Authority may have an adverse economic effect upon a privately owned utility should be a matter for the serious consideration of the Board in framing and executing its power program. But it is not the determining factor. The most important considerations are the furthering of the public interest in making power available at the lowest rate consistent with sound financial policy, and the accomplishment of the social objectives which low-cost power makes possible. The Authority cannot decline to take action solely upon the ground that to do so would injure a privately owned utility.

To provide a workable and economic basis of operations, the Authority plans initially to serve certain definite regions, and to develop its program in those areas before going outside.

The initial areas selected by the Authority may be roughly described as:

(a) Rural consumers in certain regions immediately proximate to the route of the transmission line between Muscle Shoals and the site of Norris Dam;

(b) The region in proximity to Muscle Shoals including northern Alabama and northeastern Mississippi;

(c) The region in proximity to Norris Dam. On January 4, 1934, the Authority made agreements to purchase from the Mississippi Power Co. transmission and distribution systems in the counties of Pontotoc, Lee, Itawamba, Union, Benton, Tippah, Prentiss, Tishomingo, and Alcorn in Mississippi. It also made agreements looking to the purchase of transmission lines of the Alabama Power Co. in the counties of Lauderdale, Colbert, Lawrence, Limestone, and parts of Morgan, Franklin, and Cullman in Alabama; and it also made agreements looking to the purchase of transmission lines and distribution systems of the Tennessee Electric Power Co. in the counties of Anderson, Campbell, Morgan, Scott, and part of Claiborne in Tennessee. Most of these purchases have since been consummated.

At the time of the agreements referred to, the Authority agreed not to construct distribution systems in territory served by the Georgia Power Co. and in the remaining territory of the above three companies. This agreement expires on the completion of Norris Dam, estimated to take less than 3 years. However, the Authority in the interim may, to the extent of its available power, serve the following additional classes of consumers outside of the ceded territory: (1) Any municipalities not now served by the contracting companies; (2) rural consumers or farm organizations in Rhea, Roane, Meigs, and part of McMinn Counties in Tennessee, and in Monroe County in Mississippi; (3) any customers not now served by the contracting companies up to a total demand of 2,500 kilowatts; (4) any industry operated by the Authority without restriction as to territory.

At a later stage in the development it is contemplated to include, roughly, the drainage area of the Tennessee River in Kentucky, Alabama, Georgia, and North Carolina and that part of Tennessee which lies east of the west margin of the Tennessee drainage area.

To make the area a workable one and a fair measure of public ownership, it should include several cities of substantial size and, ultimately, at least one city of more than a quarter million, within transmission distance, such as Birmingham, Memphis, Atlanta, or Louisville.

While it is the Authority's present intention to develop its power program in the above-described territory before considering going outside, the Authority may go outside the area if there are substantial changes in general conditions, facts, or governmental policy, which would necessarily require a change in this policy of regional development, or if the privately owned utilities in the area do not cooperate in the working out of the program.

Nothing in the procedure here adopted is to be construed in any sense a commitment against extending the Authority's power operations outside the area selected, if the above conditions or the public interest require. Where special considerations exist, justifying the Authority going outside this initial area, the Authority will receive and consider applications based on such special considerations. Among such special considerations, would be unreasonably high rates for service, and a failure or absence of public regulation to protect the public interest.

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## Nat'l Coal Ass'n., Cont'd

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vestment in plant and transmission lines plus operating charges.

It is easy to talk about water power costing nothing—about great natural resources of water power waiting to be harnessed to run everything in the land—but all this ignores the fact that the "harnessing" costs fabulous sums.

Couple modern efficiency of steam plants in producing electricity with an abundant supply of cheap coal and current losses of long distance electric transmission, and the steam plant is the most economical almost every time.

TVA hydro electric power, wholly irrespective of the rate at which it may be sold to the public, is certain to cost more per kilowatt to generate than equivalent steam-generated power there. There is no escape from that fact.

Higher costs of hydro electric power as compared with steam power represent a hidden but no less real and unescapable burden upon the American pocketbook. These costs must be met from some source, either through rates or through subsidies. If the consumer of high cost hydro electric power pays the full cost, then his electricity bill, year in and year out, for generations to come, will be higher than need be. If the consumer is not charged the full cost, then the American taxpayer foots the bill for the difference.

In the generation of hydro electric power each Kw. year represents six tons of coal. TVA proposes hydro electric plants with an annual output of 1,000,000 kilowatt years. (Fifty per cent of total capacity of 2,000,000 Kw.) This power output if produced by coal burning plants would utilize on an annual basis more than six million tons of coal. This is not the whole story for the consumption of TVA hydro power when and as consumed in substitution for coal burning equipment tends to still further deprive coal of its markets, to the extent of millions of tons annually.

The disastrous consequences of such displacement of coal and annihilation of coal markets upon capital and labor engaged in the bituminous mining industry is self-evident.

Here are a few graphic figures:

Every million tons of coal displaced in the Tennessee Valley or elsewhere results in the elimination of 20,000 carloads of coal, 400 trains of 50 cars each, and elimination of the employees required to operate them.

In a loss in railroad freight revenue of over \$2,000,000.

And fifty cents of each railroad revenue dollars goes to labor.

It results in the loss of \$1,000,000 annually in the pay envelopes of mine employees (for 65% of the cost of producing coal is labor cost).

It results in the loss of employment and pay to many others indirectly engaged in the production, transportation and merchandising of coal.

It results in the elimination in the aggregate of 1,000,000 work days (for each ton of coal lost is estimated to represent loss of one day's work directly or indirectly employed in production and distribution of coal).

And in the permanent closing down of hundreds of mines, upon which whole communities are dependent for support.

The Public Works Administration last year allocated 44 million dollars for flood control on the lower Mississippi and 33 million dollars for flood control on the upper Mississippi and 17 million dollars for flood control on the Missouri River, and Secretary Ickes has recently announced 1934 allocation of another 17 million dollars for the Missouri River and 18 million dollars for the upper Mississippi. \*\*\* But this is only a starter.

Administrator Ickes, with a view to incubating new schemes for government spending and foreshadowing a purpose to duplicate on a grand scale the TVA "experiment," proceeded to create the Mississippi Drainage Area Board, and subordinated to this new board the Red River Committee and the Arkansas Basin Committee.

"The ultimate objective of the newly appointed Board will be to correlate and coordinate the various projects which have been recommended from time to time for the complete development of the Mississippi River Valley and its tributaries. The PWA is hopeful that this Board will conduct its survey as speedily as possible in order that additional flood control, power and navigation and other projects on the Mississippi may be considered with a minimum of delay."

"The Committee on Long-Term Plan of Development of the Monongahela Valley, West Virginia," to survey a general conservation and development program, was appointed by the President in May.

Establishment by the President in the PWA of the "National Power Policy Committee" was announced July 16, 1934.

If the President's promise is fulfilled and the St. Lawrence seaway and power development project materializes, despite Senatorial rejection of the St. Lawrence treaty, several hundred million dollars will be expended on that project.

Aside from the financial burden which this policy is imposing upon the taxpayers of the country, it is subject to indictment on three counts: the new power is not needed, as existing power plants have a capacity substantially in excess of the present demands; electric energy can be generated at less cost in modern efficient steam plants than in hydro plants; so far as the new energy is actually marketed it will either replace energy already available from private power plants or it will enter into subsidized uses in which bituminous coal or other fuels are now being consumed. This will result in the great loss of capital in the power and coal industries, and in a large increase in unemployment in those as well as in other industries.

It is our belief that, if the taxpayers of this country once realize that this program will result in unbearable tax burdens, actually put men out of work, and destroy the values of mining property worth millions, they will organize themselves against such an unsound policy.—*Extracts, see 5, p. 256.*

*Con continued on page 245*

Morgan, *Cont'd*

Every effort will be made by the Authority to avoid the construction of duplicate physical facilities or wasteful competitive practices. Accordingly, where existing lines of privately owned utilities are required to accomplish the Authority's objectives as outlined above, a genuine effort will be made to purchase such facilities from the private utilities on an equitable basis.

Accounting should show detail of costs and permit of comparison of operations with privately owned plants, to supply a "yardstick" and an incentive to both private and public managers.

The accounts and records of the Authority as they pertain to power will always be open to inspection by the public.—*Extracts, see 6, p. 256.*

by David E. Lillienthal  
Director, T. V. A.

THE power program of the Tennessee Valley Authority is an important part of its present plans and also of its long-range regional program. The starting point in any discussion of this power policy and program must be this: that the distribution of electricity is not like the ordinary private business. By its very nature, the generation and distribution of power, whether by private or public agencies, is a public business, for in our present-day community life we are all utterly dependent upon that service.

The Authority is charged with the duty of carrying out a national power policy, and the safeguarding of the public interest in the country's greatest resource. This program profoundly affects the future development of our country's commerce, its industry, and the well-being of all its people. It is not a policy that has been formulated overnight. It has been sponsored by the President; it has been thoroughly debated in the Congress. The power program of the Authority is an integral part of a larger policy for the economic development of the United States.

In order to comprehend fully the reasons for the power program set out in the Tennessee Valley Authority Act, it is necessary to recall what has been happening in the United States during the past ten years. It is necessary to understand that the people back home have become thoroughly aroused; that they are determined that the disgraceful looting of the public business of power shall not be repeated.

The deepest resentment over the mismanagement of the power business has been among the ranks of the small investor. Much of the capital by which the great financial giants have carried on their operations has come from the savings of men and women of modest means. The widow with her small insurance fund, for example, was assured by the stock salesman that public regulation would protect her against wildcat financial operations, that the public utility industry was in the hands of men who regarded themselves, in effect, as trustees of a great public

business. And when the small investors learned the real facts, their resentment has been greater even than that of the consumer.

Nor have the people back home forgotten the story which was revealed by the Federal Trade Commission in its investigation of the propaganda activities of the electric industry. There has never been a bolder attempt to buy the public opinion of the people of the United States. That widespread scheme of capturing the sources of public information would have destroyed the American system of democracy.

But the most serious indictment of the public utility industry is that it has not devoted itself effectively to its primary function of making electricity available at low cost to the American home. The best evidence of this situation is the simple fact that after fifty years the average use of electricity in the homes of this country is not more than 50 kilowatt hours a month.

Now this is what had been going on throughout the United States—financial excesses, political corruption, an enforced frugality in the use of a great natural resource. In many states it had become perfectly obvious that the regulators were not regulating the utilities, but that in effect the utilities were regulating the regulators. In other states the regulatory commissions were doing an honest and sincere job, but were rendered ineffective by the interminable procedure of regulation. And so to supplement and reinforce regulation, Congress passed the Tennessee Valley Authority Act. This act is not an assault upon private ownership and management of public utilities; but it is a determined attack on private mismanagement of the public business of power at the expense of the people back home—housewives and investors alike.

The first duty of the Tennessee Valley Authority in its power program is to set up what the President has called a "yardstick" by which to measure the fairness of electric rates. It has an additional function. It is a reminder that unless that business is carried on by private corporations with a due sense of responsibility to the paramount public interest, that the public, at any time may assume the function of providing itself with this necessity of community life.

What the Tennessee Valley Authority is required to do in its power program is to set up an area for power operations. This part of its undertaking I can best describe by taking a specific case. The Authority has entered into a contract with the City of Tupelo, in Northeastern Mississippi, the first agreement for the sale of power from Muscle Shoals to any municipality. I would like to outline to you some of the terms of that contract, which are standard with all communities served by the Authority.

Under the contract the Authority agrees to supply power at wholesale, which the City of Tupelo then distributes through its publicly-owned electric distribution system. The cost of the power to the City of Tupelo represents a saving to the municipality of 60% of the cost of equivalent power under its previous service by a private power company.

Almost as important as the price of current which the City will pay, are the relationships set out in the contract. The City agrees to administer the electric utility as a

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by David Lawrence

Editor, United States News

**B**ACK in the early days of this century when cut-throat competition was at its height, business men were bitterly condemned for forcing competitors out of business.

"Either sell out to us or you will be ruined!"

That was the recurrent threat which brought the anti-trust laws into being.

That was the vicious power which the laws of unfair competition sought to curb.

Today, yes in these days of the New Idealism, a transaction has just been consummated which will go down in history as the most brazen exhibition of ruthlessness in the use of governmental powers we have seen under the "New Deal."

It is important not merely because of the "ethics" involved but because, if it sets a precedent, then a 14 billion dollar industry is imperiled.

If this particular contract of purchase in Knoxville, Tenn., is to be a "yardstick" of the treatment to be given by government to all utility properties and their stockholders then, using the same ratio, there would be a loss of from \$5,000,000,000 to \$7,000,000,000 to investors.

Such a loss would be a national calamity. It would eventually bring on a severe recession in all business.

This is why the facts of the Knoxville "deal" should be widely known and thoroughly understood.

The facts are obtainable from public records and from correspondence between the Tennessee Valley Authority, a government corporation, and the Tennessee Public Service Company, a private power operation. Here is the sequence of events.

Representatives of the TVA began conferences with city officials of Knoxville last August concerning the possibilities of selling electric power.

The people of Knoxville at a municipal election in November voted to acquire or construct an electric distributing system. The city had, of course, a right to do this and to tell the company serving Knoxville that competition was coming.

But the city of Knoxville had no funds to build a power plant and its record did not justify public borrowing. In fact, the Tennessee state board of the Public Works Administration last November rejected a request for a loan to build some viaducts on the ground that the city's credit was not good enough. The application for a loan to build a power plant was also disapproved by the Tennessee board of the PWA.

Yet, lo and behold, the Public Works Administration, in Washington offered to loan the city of Knoxville \$2,600,000—of which \$600,000 was to be a gift—for the construction of an electric distributing system to compete with the private power company.

Armed with this weapon, the city of Knoxville then entered into a contract to buy power from the TVA. Then the municipal authorities approached the private company with an offer to buy its distributing system for

the city only but this was declined because it would have crippled the private company's largest unit of earnings and would have left the company transmission and distribution lines outside the city to be operated unprofitably.

Then the Tennessee Valley Authority—the federal government itself—stepped in and proposed to acquire the whole transmission and distribution system of the company inside and outside the city of Knoxville.

Faced by a threat of competition from the city by the potential use of federal funds, there was no alternative for the Company but to agree to sell. The Company declared in its letters that it was not a "willing seller," a point which may some day be important when the litigation develops as inevitably it must out of this amazing transaction.

As one reads the letters exchanged between the Tennessee Valley Authority, on behalf of the Roosevelt Administration, and the Tennessee Company, there is a remarkable set of statements which upon analysis reveal that the method used by the federal government officials to compute the value of a company or the position of stockholders who have invested their money is scarcely different from that of our leading practitioners of financial freeze-out.

If you are a physician for instance, and you own a house and agree to sell it to somebody who offers you, let us say \$5,000 for the dwelling which cost you originally \$7,000, it would sound strange indeed for the would-be-purchaser to tell you that he happens to know you have \$2,000 in the bank which you earned while practicing your profession in that house and hence if you did sell at \$5,000 you really wouldn't be losing any money after all!

Well, that's exactly what a prominent government official, writing on behalf of the Tennessee Valley Authority, told the representatives of the bondholders and security holders of the private power company which the TVA sought to buy.

It came about in the course of an explanation of why the federal government offered originally only \$5,250,000 to acquire a property for which the bonds outstanding amounted to \$7,780,000 to say nothing of the \$5,000,000 of preferred stock or the \$2,000,000 of common stock invested. The TVA, in answer to the argument that not enough had been offered to pay off the face value of the bonds, simply pointed out that the Tennessee Company had \$1,200,000 in cash in the bank, and that this when added to the TVA's offer and the proceeds from the sale of some other property would be more than enough to pay off the bonds.

When the transaction was finally completed, after three months of negotiation the Tennessee Company actually had to accept from the sale of its property under virtual duress \$285,000 less than the face value of the bonds.

The TVA ignored both the preferred and common stockholders altogether. Had it not been for this cash item of \$1,200,000, which was originally contributed by stockholders or derived from earnings of preceding years, the preferred stockholders would have been wiped out entirely. As it is, the preferred stockholders will get between \$35 and \$40 a share. Yet originally they paid \$100

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separate unit, and not to merge the utility's funds or accounts with those of the municipality. This is a safeguard against political interference in the administration of the utility plant. The City further agrees to keep its accounts according to a uniform system, so as to reveal all operations of the plant. This is a safeguard against unsound practices and an incentive to improve methods. These accounts will be regularly audited by agents of the Valley Authority.

The municipality agrees to apply sound business principles to the use of its electric revenues. Revenues will be first applied to operating expenses, including taxes, and then to payment of interest on bonds applicable to the electric system, and toward the retirement of those bonds. A reasonable reserve is to be set up for new construction and contingencies. Taxes are to be paid by the municipal utility at rates equivalent to the taxes which would be levied against a privately-owned utility. Then the taxpayers' general fund will receive a return on the municipality's equity of 6% a year. After these items have been provided for out of the revenues, the City agrees to apply the surplus to further reductions in rates to consumers, on a non-discriminatory basis.

It will be apparent that the City of Tupelo proposes to require the consumers of power to pay all of the costs of the electricity which is furnished to them. Instead of the taxpayers subsidizing this enterprise, they are going to benefit in two ways. First, they are going to receive taxes from the publicly-owned utility, and, second, they are going to receive a return on their equity which will go toward the relief of taxes.

As consumers, the residents of Tupelo will be afforded a much wider use of electricity than they have found possible under the higher rates in effect before the City was served by TVA power. An average home, using electricity for lighting, refrigeration, a vacuum cleaner, irons, and other electric appliances, will consume about 70 kilowatt hours a month. At Tupelo, the cost of this service would be \$1.90. For a home that uses an electric range in addition to a variety of other appliances the consumption would be about 250 kilowatt hours a month. At Tupelo, the householder would pay \$5.00 for this service.

So much for the first objectives of the Tennessee Valley Authority—the regulatory, public control purposes of this national power policy. We come then to the second objective, of at least equal significance.

The power program of Congress and the President has as its major objective a constantly wider use of electricity. The fundamental problem of the Tennessee Valley Authority, of the electric industry, of the Federal Government, is to devise economic ways and means to make electricity generally available, of promoting the widest possible use of power in the home, on the farm and in the factory. I have referred to the fact that at the present time the average monthly use of electricity for domestic purposes is about 50 kilowatt hours. That figure is a challenge to the electric industry and to the people of the country. We know that the figure of 50 kilowatt hours a month can be increased several times, for in some sections of our country and in our neighbor country of

Canada that very thing has been accomplished.

Here, then, is the crux of the power problem in the United States today: The people need and want electricity. We have an almost unlimited source of supply. The problem is how to put this electricity into the homes, the farms and the factories of the United States.

It has been long recognized that there are two barriers to the fullest use of electricity. The first has been the barrier of high rates. The second has been the barrier of high-cost electric using appliances. We are now undertaking in the Tennessee Valley area a plan which may offer the means of breaking down this second barrier.

The utilities' position has been that until the use of electricity is greatly increased, rates cannot be drastically decreased. They urge, moreover, that until electric-using equipment is brought down to lower price levels, no great increase of domestic consumption is possible. Appliance manufacturers have contended, on the other hand, that unless electric rates come down, volume production of equipment is impossible, and without this volume production, the cost of appliances cannot be substantially reduced.

Electric utilities, manufacturers of appliances and the consumers have all suffered in this closed circle. Here was an opportunity for government represented by the Tennessee Valley Authority, to step in as a stimulator and coordinator—helping not only the manufacturers and utilities, but making possible to the family of low or average incomes a wide use of electricity. The Electric Home and Farm Authority, created by order of President Roosevelt, is the agency which will assume this role. Conferences have been held with the electric manufacturers of the country. It has been decided that Electric Home and Farm Authority could make the attack on high-cost appliances in five ways:

First, by assisting in financing the consumer in purchasing efficient electrical equipment for home and farm at low prices.

Second, by obtaining reductions in electric rates by agreement with the utilities, publicly and privately owned, so as to make use of this equipment feasible for the average householder and farmer.

Third, by engaging in educational work and research to lower still further the cost of electric equipment and to make it better adapted to the needs of the average home and farm.

Fourth, by encouraging the production of new designs. This has already resulted in the creation of a combined range and refrigerator, and other totally new designs are soon to appear.

Fifth, by protecting the consumer against poor appliances, by setting up specifications and testing laboratories.

What is going to be the effect of the Authority's power program on the investor in soundly financed public utility securities? This is an acute and difficult question which I have no desire to evade.

The Authority must carry out the national policy entrusted to it. It must acquire a market for its power. It must work toward a wider use of electricity. None of these objectives will result in the predicted calamities to the industry and its bona fide investors. The Authority

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Lawrence, *Cont'd*

a share and were getting their dividends of six dollars a share regularly when the federal government stepped in and demanded the sale of the property. Indeed, the preferred stock ranged between 90 and 100 in market price before the act authorizing the Tennessee Valley Authority's operations was passed in 1933 and talk began of competition by the government with private companies.

The loss of about \$60 per share may be attributed therefore, to the activity of the federal government in starting competition with private companies. There is no reason why these preferred stockholders—there were about 50,000 shares—should not sue in the Court of Claims for the balance, though this is a long tedious process.

Certainly there is a much more explicit connection between the losses here sustained as a consequence of federal government action than the alleged responsibility that is supposed to rest upon the federal government to pay off those who have lost money in closed banks.

Some day, doubtless, we shall see bills introduced in Congress to pay those who lost money as a result of the government's power policy.

But why did the federal government deliberately assist in a maneuver which forced a private company out of the field it had occupied?

The TVA's answer is that the Tennessee area is a "yardstick" in which electric rates will be measured for the national benefit. Well, there are plenty of municipal power plants, throughout the country, plenty of honest accountants and plenty of facts available about electric rates to enable the Congress to make up its mind whether the best interests of the nation will be served by government ownership and operation of electric utilities or by a system of state regulation of rates and private ownership.

If the national power policy is to be one of sniping at private companies, or of collusion with municipalities through the offer of federal loans and the use of cut-throat competitive methods, then the sooner the \$14,000,000,000 of investment in the utility industry is forwarned of what is coming the better the country will be able to adjust itself to the shock.

Assuming that about \$7,000,000,000 of this sum represents first mortgage bonds and that the government would pay these off at nearly face value, the addition of such a vast amount to our public debt is not easy to contemplate. Still, with the federal government able to borrow at 3 per cent whereas private companies cannot borrow for much less than 5 per cent, there would be a saving in interest.

This presumably would be passed on to the consumers. But something else more expensive would be loaded on the consumers. They would have to pay taxes to replace the large deficit made by the removal of the public utility as a taxpayer. The latter pays taxes to the 48 states and to the federal government too. A recent estimate places the total taxes paid during the depression year 1933 by the utilities at about \$250,000,000.

Municipal power plants are usually tax free. So there must be some way of replacing lost revenues.

But this is not all. Money must be raised to pay for

extensions and growth of utility service. It has been calculated that an average of about \$650,000,000 a year is spent by utilities in developing service. The federal government would have to prepare for this expansion by borrowing new funds.

But why is it necessary for the government to go into the power business at all? Because the "power barons" have mulcted the public? There are few barons left. They have been largely wiped out of the picture. The investors remain. Why should they take punishment? They saved their money and invested it believing they had the protection of the laws of the several states and of the federal government.

It is contended, on the other hand, that because electricity is a widely used product and goes into every home, the price must be low for the benefit of the householder. Why not make the state regulatory bodies do that? Looking at the recent figures, we find that the total light bill for the homes of the nation is only about \$600,000,000 a year. Yet the food bill of the people of the United States is \$7,650,000,000 a year and the tax bill is about \$9,000,000,000 a year.

If we are so solicitous about the householder's budget then the tax and food items are big enough to warrant immediate attention by the politicians.

Also if it is logical to take over the electric light business, it is equally logical to take over food and clothing and the making and distributing of all other necessities of life or the ownership of the other natural resources like coal, oil, copper and various articles used in home-building.

And if there is disregard of a large part of the capital invested by the preferred stockholder and total indifference to all common stock—which represents the opportunity or hope of reward for risks already taken—then what is to become of the whole wealth-producing and tax-paying economic system?

The defenders of TVA probably will say that they do not intend to do any more than bring rates down. If so, then why are so many projects for municipal power plants being encouraged through loans by the PWA? It doesn't take much to break up a distributing system in a given area by setting up a government subsidy ostensibly to force down the rates.

Perhaps the most devastating comment on the Knoxville episode is that which was reported in the "Knoxville News-Sentinel" only a few days ago. It was just after the TVA had consummated its contract with the Tennessee company.

Councilman W. A. Cockrum, chairman of the city's power committee which worked constantly with the TVA, praised the officials of the TVA to the skies and added on behalf of the city of Knoxville:

"We think we have purchased a plant, which as a business investment is worth twice what it cost us."

Certainly it is worth twice what it costs the city of Knoxville.

In the first place the TVA has already agreed to sell the distributing system inside Knoxville's jurisdiction for

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Lillienthal, *Cont'd*

early adopted a policy of buying, at fair prices, the property of private utilities in the area selected for its "yardstick" operations rather than to duplicate facilities and engage in destructive competition. The policy was given concrete expression in a comprehensive contract entered into on January 4 of this year with the major operating companies of the Southeast embraced in the Commonwealth and Southern system. In order to avoid competition between the City of Knoxville and the Tennessee Public Service Company operating in that city, and a duplication of physical facilities, the Authority has offered to buy that Company's property useful for electric operations at a price which will protect every dollar of presently useful investment. You can see, therefore, that if there is a genuine desire to work with this project, and not to obstruct or destroy it, ways and means can be found for the electric industry and for the Government to work without friction in expanding the use of electricity for the benefit of all of our people.

This, then, is the national power program which the Tennessee Valley Authority is carrying forward. I believe you will agree with me that it is a constructive program, that its sole object is to benefit and to protect the consumer of electricity and to make for a constantly wider use of electricity by the housewives of America.

Private ownership of public utilities can survive and flourish, only if a new leadership takes the helm of the public utilities industry, a statesmanlike leadership of moderation. There are many men in the industry, as I well know, who have the insight to appreciate this fact, but they are sadly in the minority.

Among the changes the times demand of a new leadership, permit me to suggest four which seem to me of immediate and pressing importance.

First: The new leadership should demand a real house-cleaning in the industry. No mere change of names will suffice. The Insulls have fled the scene, but the practitioners of their business and political methods are still high in the councils of the industry.

Second: The public utility industry must cease to oppose every reasonable effort to strengthen regulations. The action of the utilities of New York State in opposing, and almost successfully opposing, Governor Lehman's moderate program for the strengthening of public regulation, was an amazing performance.

Third: The public utility industry, like other conservatively operated businesses should write off or write down that portion of its capital structure which does not represent value. The policy of retiring capital obligations rather than continually refunding should be adopted. The uninformed investors who are misled should be advised of the facts.

Fourth: There should be a whole-hearted recognition of the right of the people to serve themselves with electricity if at any time they are dissatisfied with service through a private agency. The recognition of this right carries with it an implied duty to refrain from interfering with the free exercise by the people of their right to choose this course. Such an attitude may be represented by a quotation from the president of one of the large holding companies. Referring to his previous opposition to Government operation of Muscle Shoals, he said:

"However, the President and the Congress of the United States declared that the policy of the Federal Government should be otherwise. Under the circumstances, we felt that policy and a due regard and respect for the judgment of those to whom the welfare of the nation had been committed, compelled us to permit the declared policy of the Federal Government to prevail."

These are the essentials of a new policy which the electric industry must pursue before it will be restored to a sound business basis and to public esteem.—*Extracts*, see 8, p. 256.

by Hon. John F. White  
Representative, Indiana Legislature

THE advantage of publicly owned utilities over those which are privately owned and under public regulation, are manifold and of outstanding financial and ethical advantage. The ownership is simplified and all the complications of regulation are avoided; prolonged hearings to establish valuations for rate making purposes are no longer necessary, saving vast sums entailed by such hearings; there are no stock holding interests to induce pyramiding of capitalization made out of intangibles for rate making purposes and stock jobbing speculation, out of which fortunes are made that have no relation to income for services rendered the public, and there are no stockholders to whom dividends are to be paid; income is apportioned to upkeep, betterments and maintenance—payrolls, repairs, replacements, new structures and extensions and depreciation to which is to be added reserve funds for interest charges and retirement of bonded indebtedness, to finally result in full ownership of the plant out of its own earnings.

Instead of dividends to stockholders, giving incentive and opportunity for stock speculation and other financial manipulations through holding companies, dividends go to the people, either in lower rates or in a more extended and desirable service, or can be used in aid of the general local expense to relieve the tax load; and when money is to be borrowed, the public can secure loans at a lower rate of interest than that paid by private companies. Almost never, as a policy of operation, do privately owned utilities provide for the liquidation of bonded indebtedness, thus carrying a perpetual interest-bearing debt, always to be counted as an expense entering into the rate structure. Such carrying charges are finally eliminated by public ownership.

There has appeared a strong reinforcement to some of my contentions, in a statement issued by the Tennessee Valley Authority, laying down the general policy of developing the power of the Tennessee river, which includes the Muscle Shoals territory. This Authority is the commission set up by President Roosevelt to develop, control and supervise the distribution of electric power developed

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Lawrence, *Cont'd*

\$4,230,000. Twice that sum is \$8,460,000. Yet the TVA paid the security holders only \$6,188,000 for the properties it bought inside and outside of Knoxville. Somebody, under duress or intimidation was deprived of the difference—namely about \$2,288,000.

The national problem of proper electric rates will never be settled by the Knoxville yardstick. Regions vary and sections differ. What is really happening is that a group of selfish men who misused investor funds or who had too optimistic ideas of the future growth and earnings of distributing systems brought on a reaction—an emotional psychology of which the government ownership experimenters are taking advantage. And in the end the American people will pay the bill or face such a huge debt as to make repudiation the only tolerable alternative.

Even granting that the government—with all its political chicanery—can manage business better than private individuals, the transition in a country built up on private investments is not less painful or deflationary in the interim because it is utopian in ultimate objective.

One needs only to think of the numerous savings banks, insurance companies, universities and philanthropic institutions generally which hold public utility securities to shudder at the prospect of a surgical operation on the nation's financial structure such as would be occasioned by any general application by government of the "ethics" or "morals" of the Knoxville "deal."—*Extracts, see 7, p. 256.*

by Forney Johnson

Counsel, Aetna Coal Co.

THE TVA was created for the alleged purpose of operating the Muscle Shoals properties, (Wilson Dam, nitrate plants and power plants) of the United States in the interest of national defense and for agricultural and industrial development and for the improvement of navigation and flood control in the Tennessee Valley. These objectives have in fact, from the outset, been supplemented by or are secondary to certain social and economic functions and purposes having no reasonable relation to the war or commerce power of the United States or of Congress; functions which are, moreover, as exercised and threatened by the Federal Government, averred to be beyond the lawful power of Congress to authorize or of TVA or any Federal agency to undertake or execute.

That program is planned as an entirety and contemplates total expenditure of approximately three hundred and ten million dollars of Federal funds. An original appropriation of \$50,000,000 and a recent appropriation of \$48,000,000 are in course of budgeting and expenditure by the TVA in harmony with the plan. Of this sum approximately ten million is set aside for nitrate (fertilizer)

experimentation and may be assumed to be fairly referable to the war power. Of the remaining three hundred million, only one-third is claimed by the Federal Government to be referable, allocable or properly chargeable to the commerce power (development of navigation and flood control). The remainder is admitted by the Federal defendants to be referable and plaintiffs aver that such remainder, approximating \$200,000,000 is referable to and in furtherance of a social and economic experiment in electric power generation and distribution and social planning which, however desirable in theory, is beyond the power of Congress to authorize or TVA to administer.

The dominant motive of the plan, not authorized under the Federal constitution, not charted by Congress and resting in the absolute discretion of the Directors of TVA (except for such voluntary consultation with the President individually as they elect to have, he having no lawfully delegated or affirmative function or responsibility in the matter of the details of the projects or their current administration) is the generation and distribution of hydro-electric power to be intentionally developed beyond the maximum requirement for navigation, flood control or for war purposes and the social planning and reconstruction of the Valley area.

The plan of TVA includes as an indispensable factor the acquisition of a market for the excess energy proposed. This acquisition is proposed both through competition with and displacement of existing business and industry in the area and through promotion of new or enlarged demands for energy, both means being beyond any legitimate Federal power. The suggestion of the Federal defendants that they hope to evolve a process for utilizing the vast excess of energy in the ceramic industry, in reduction of low grade potash shales and manganese ores and in similar vague hopes, is frankly stated by defendants as a hope and is impalpable and negligible in comparison with the announced, active and aggressive displacement of and encroachment upon the market of the plaintiffs and other industries and businesses through Federal resources and through the substitution of unregulated TVA ownership and operation for ownership and operation of electric utilities functioning and regulated by the State pursuant to the Constitution of the United States.

For any proposed use under the war power or for operation of the dams in furtherance of navigation or other lawful Federal function, the existing primary power available at Muscle Shoals is largely in excess of any proposed or prospective use for war purposes or could be provided independently at each dam at negligible cost.

The construction and operation of the proposed hydroelectric units and the distribution of the resulting energy by TVA through utilities owned and operated or selected by it, is not in aid of navigation or the manufacture of nitrates or justified by the war or commerce powers of the Constitution. Plaintiffs aver that, on the facts ascertainable by them and their information and belief, any suggestion by or on behalf of the Federal defendants that the vast program of hydro-electric generation and distribution comprehended and threatened by the plan is reasonably required in aid of or is proximately adapted to any lawful Federal function of navigation or flood

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by both the Muscle Shoals dam in the Tennessee river and the Norris dam to be constructed in the Clinch river, a contributing stream to the Tennessee, altogether making up the great Tennessee valley development project covering surrounding territories in Tennessee, Alabama and Mississippi.

The very first dictum set out by the Authority is that "The right of the government to own and operate its electric plant to protect itself against unreasonable rates is undeniable, and that the business of generating and distributing electric power is a public business." Other significant portions of the statement say that "Private and public interests in the business of power are of a different kind and quality and should not be confused; that the interest of the public and the wide use of power is superior to any private interest, and where private and public interest conflict, the public interest must prevail."

Quoting further from the Authority statement, there is this important declaration, which after saying that the right of the community to own and operate its electric plant is undeniable, states that "This is one of the measures which the people may properly take to protect themselves against unreasonable rates. Such a course of action may take the form of acquiring the existing plant or setting up a competing plant, as circumstances may dictate." While the pronouncements of the Authority relate particularly to that of electric power, the principle involved is equally applicable to all kinds of utility services. It is significant that this principle is to be applied to a great national enterprise such as is embraced in the Tennessee valley development project, and far-reaching consequences in furthering the public interest, are bound to follow.

We have also in these declarations, confirmation of the motive behind the enactment of the new Indiana utility law, in which the whole tenor of the amended sections and the new material enacted into the law, lead to the setting up of provisions in which the regulation of public utilities is made more effective. But what is vastly more important, greatly enlarged powers have been given cities to acquire utility plants and in establishing forms of procedure to expedite the process of acquirement, construction and management. All was not accomplished along this line as originally contemplated, and there is still the difficulty of surmounting the five-year contract privileges contained in indeterminate permits. But with a sustained interest on the part of the people, and a determined purpose to secure the public welfare in utility services, only a few more years are needed to have these services firmly entrenched as a public function.

The declarations from the Tennessee Valley Authority are only part of the rapid accumulation of enlightened opinion in favor of public ownership of utility property, a sentiment being accelerated by the scandalous disclosures in the manipulations of private utility properties and utility securities, disastrous alike to these properties and the investors. A later statement by the Authority estimates that the power developed by these Tennessee dams, will be at a production cost as low as 7 mills per kwh; that distribution plants will be able to furnish users at a cost not to exceed 3 cents per kwh, and that an

average price to consumers should not exceed 2 cents and running down to a much lower rate. This great experiment in electric power development will probably be the means of furnishing a measuring rod for the price of electric power, as a basis for universal rates within the United States, as the Hydro-Electric company of Ontario, Canada, has been the measuring rod for such costs in that country.

There are many publically owned utility plants throughout the United States where rates and services outstrip privately owned plants, including many such plants in Indiana. But the Ontario Hydro-Electric plant is probably the most outstanding one in operation, illustrating the advantages of public ownership and operation of utility services. It is interesting to note the conclusions of Prof. Wm. B. Mosher of the school of Citizenship and Public Affairs at Syracuse University, in his book entitled "Electric Utilities—the Crisis in Public Control," wherein is outlined an exhaustive study of utility operations in Ontario and the state of New York. A comparative showing is made of a group of four New York companies compared with four Ontario companies of approximately the same size, based on monthly consumption. In Ontario the average cost to domestic consumers is .0164 cents per kwh, less than one-half the cost in New York.

In Hamilton, Canada, in 1927 domestic service was rated on an average cost per kilowatt hour at .016 cents, with an average monthly consumption of 116 kilowatt hours, and an average monthly bill of \$1.87. In previous years, when the cost was 4 cents, the average consumption was only 23 kilowatt hours, with an average monthly bill of 92 cents. The low rate induces a much larger consumption and encourages a larger use of electrical appliances. It is shown that domestic users exceed in number every other class of consumers by a large percentage, and that nearly one-half the revenue comes from domestic consumers. This indicates that this class of consumers offer an unlimited opportunity for development.

There were a few classifications where industrial rates were lower in Buffalo than in Ontario, both getting power from Niagara Falls, affording basis for the charge that discriminations were made in favor of the domestic users in the Ontario region at the expense of the industries, and that the Ontario rates were therefore political rates. But it is to be taken into account that the large city of Toronto is sixty-two miles farther from Niagara Falls than is Buffalo, requiring long transmission lines. But all other cities in New York, large commercial and industrial users are paying from 40 per cent to over three times more than the costs of similar services in the Ontario group of cities.

More recent reports from Ontario and from cities in the United States having municipally owned utilities, indicate that the above proportionate rates are being maintained, if not showing a still lower rate by publically owned plants as against privately owned ones, in addition to the many other advantages of public ownership. The estimates of such costs just recently released by the

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Johnson, *Cont'd*

control or the manufacture of explosives for war purposes would be so lacking in foundation as to be in bad faith and constitute an abuse of the margin of lawful legislative discretion. Plaintiffs deny that the end stated is a legitimate Federal function; they aver that it is not within the scope of the Constitution that the means adopted and threatened are not appropriate or plainly adapted to any lawful Federal function and do not "consist with the letter and spirit of the Constitution," in so far as the program contemplates the construction of additional hydro-electric units on the Tennessee River or the distribution of any current whatever as a utility.—*Extracts, see 9, p. 256.*

by Milton H. Fies

Vice-Pres., De Bardeleben Coal Corp.

THE position of the critic against a governmental agency in times of stress is not altogether an enviable one. I find that there is a prevailing opinion in the minds of intelligent men and women of this country, originating as I think it does among themselves, that "the king can do no wrong"; and I am disturbed about it because when such a state of public mind manifests itself it is a matter of more serious concern even than when emanating from the "king," himself. Members of the Administration—not the President—have shown a disposition to condemn and flay critics, but mark you this, when "criticism ceases we will hark back to the days of the divine right of kings and our Constitution will have become an empty form."

If you will take the trouble to inquire among the officials who know the inner workings of the Bituminous Coal Code, they will, I think, tell you that the bituminous coal operators of Alabama have been loyal in their attitude toward the Administration, and have co-operated in a measure not exceeded by any other group in the United States. But, as has been pointed out, to cooperate does not necessarily mean to surrender. To say that one is unpatriotic or selfish because one questions the act of a governmental agency, is unfair, because any question is a matter "of estimate, of opinion, of decision."

In a pamphlet issued by the National Emergency Council, over the signature of the Chairman of the Tennessee Valley Authority, it is stated that the activities of the Tennessee Valley Authority are planned to be a continued undertaking. "It should not be confused with emergency recovery legislation . . . The Valley undertaking is a long-range and varied program." The case of the coal and ice companies is prompted mainly by one question, namely, whether or not "this long-ranged and varied program" of the Tennessee Valley authority is in violation of the principles of our constitutional government.

If we are to have a change in our method or principle of government, the change should be orderly. If the Government is to go into business in competition with its citi-

zens, the majority of the citizens of the country should determine that right; and as long as our laws are fixed they should remain firm until they are changed. If our Government is to go into the power business, or the business of selling apparatus, or any other business, there should be provided under the law, by the people, the method and manner for such activity.

A great American recently stated that "it is the essence of representative Democracy that men should live under fixed laws, framed in plain terms and passed by their representatives fairly chosen by public vote. It means that or nothing. These laws to be just must be specific, clear and, within reason, stable. In a Democracy, men have a right not only to be heard through their representatives when laws are passed but to read upon the statute books today without fear of momentary change the rules of conduct they are called upon to follow tomorrow." No less a person than Jefferson himself said this: "Concerning questions of power let no more be said of confidence in man, but bind him down from mischief by the chains of the Constitution."

The coal and ice people of Alabama question very seriously whether or not under the Bill of Rights and the Constitution, their rights have been restricted. There is an issue in their minds as to whether or not the rights of the States have been abrogated. "They propose to ascertain whether or not the United States is being nationalized and if the States, as States, are doomed. They propose to find out whether the setting up of various authorities is dividing the United States into economic provinces which may make State government an anachronism;" and to determine if, as in the days of Rome, we are to be controlled by modern Herods and Pilates.

But the trouble is we cannot see the forest for the trees. The immediate future is what most of us are concerned with. And we are permitting our State governments "to become political scalawags and hangers-on; we are permitting them, in fact, we are insisting, that they trade in all their rights for pap." Just as long as we pursue this sort of policy, our "representatives in Washington will not think about the larger aspects of statesmanship but concern themselves almost entirely with gorging at the public trough." A great many people in Alabama and Tennessee seem to be perfectly willing to sacrifice permanently the jobs of 20,000 men who work in the coal mines in order to give employment to from 9,000 to 15,000 men for a period of from three to five years.

There is a fallacious opinion that water power costs nothing—that the public can expect great and far-reaching economies from an increasing use of water power and that in the country as a whole it is supplanting power produced from coal or oil. And the irony of the whole situation is that steam generated power can be produced more cheaply than water power in an area where coal is readily and cheaply available; and of course the advantage of permanent employment for miners to produce coal for steam-produced power is unquestionable.

The efficiency of the water wheel has been constant for nearly two decades. The progress in the production of steam in boilers, its application in engines and turbines,

*Con continued on page 253*

Tennessee Valley Authority bear out the general trend of lower electric rates when the plants are under public ownership, and indicate that the only route leading to lower utility rates and extended and improved service, is by way of such ownership.

As a last word, I want to strike a warning note in relation to one particular danger that public ownership faces in the operation of its utilities, which to my mind, is the one and only valid objection made to public ownership by its critics, which objection on their part is serving as a sort of last ditch appeal. That danger is the making of political spoils out of the operation of the plants. If any community allows its civic spirit to be polluted with the idea that these plants can be operated with a personnel chosen on any other basis than that of merit, or that its service must risk the hazards of every changing administration, it is due to have disappointing results. If the people can not rise above the partisan spoils system in the operation of a utility, a business requiring trained help and a continuity of service to secure efficient results, then they are still far removed from a sound conception of the common welfare in relation to utility services.

Operated with employees selected because of fitness for the job, then unqualified success is assured and the common welfare is not betrayed. Regarding this policy, I wrote some provisions into the original new Indiana utility bill concerning the management of utilities requiring fitness as a test for employment, but in the hazard of the legislative session and probably the influence of partisan sentiment, during the closing days of the session the mandatory provisions in this feature of the bill were made optional, leaving it entirely up to the judgment of the municipality whether or not it will incorporate the merit system of employment when taking over or constructing a utility plant. Of course such action had the merit of being supported as a home proposal, and I am hoping that each municipality will realize the wisdom of making fitness a rule of action in selecting utility personnel.—*Extracts, see 10, p. 256.*

by Judson King

Director, National Popular Government League

WHETHER it be sovietism, as former Attorney-General George W. Wickersham and like stewards of the old regime warn, or deliverance from extortion, as the people believe, we are in for a try at public ownership of electric-power plants and systems. It is therefore good business judgment to survey the field, look far into the future, and try to get a thorough understanding of the basic factors which will bring ultimate success to these experiments. This is true whether it is a question of small local plants or of gigantic superpower systems serving scores of cities, towns, and farm districts by a network of high-tension transmission lines from one or two great generating stations, as is contemplated in

the Muscle Shoals, Boulder Dam, and St. Lawrence projects.

These giant power projects are essentially of the same type as the Ontario Hydroelectric system in Canada. While there are more than 2,000 municipal plants in this country, we have had no experience in operating a public *superpower* system. The only one in existence which has grown up under social and economic conditions similar to those to be found in the United States is the Ontario system. Manifestly, therefore, the policies and practices which have led to the success of the Ontario system should receive our careful study. If there be any question that the Hydro is a financial success, let the honest doubters consider the balance sheet of 1932, which reveals a total cash investment of \$382,558,763, with total reserves of \$122,770,103, with all sinking fund, interest, and other bills paid, and with bonds at par—this despite phenomenally low rates and no revenue from taxes. The engineer-manager of the Kitchener Commission informed me this summer that if he paid taxes as, for example, the telephone company does, it would add only 4/10 of 1 mill per kilowatt hour to his rates. Since he has sold current to householders for the past ten years at an average of a little over 1½ cents per kilowatt hour, it is evident that if he did pay taxes it would not bring the rates within long-distance-telephone hearing of our average domestic rate during that period of more than 6 cents. The Hydro has been and is a self-liquidating project despite the blue haze of misrepresentation regarding it which now covers the United States and deceives many of our citizens, especially business men and manufacturers.

In Ontario all generation and long-distance transmission are under the control of the Hydroelectric Power Commission of the province. Power is delivered by the commission to the cities at wholesale rates. The cities do the retailing, but under rates and regulations laid down by the commission, which acts as a regulatory body.

The enterprise began operations in October, 1910, with twelve cooperating municipalities served by the commission over high lines from Niagara Falls. Today there are 387 municipalities, large and small, and 172 farm units so served. Historically speaking, then, our governmental projects are at the same stage as the Hydro was in the period from 1903 to 1910, when the struggle for its establishment was at white heat. After this brief sketch of the background, let us examine the principles laid down by Sir Adam Beck, first chairman of the Provincial Power Commission, and his co-workers.

Sir Adam was a hard-headed business man who knew there was no sentimental magic in the words "public ownership" which would automatically bring genuine and lasting success. He held that the engineering and financial structure of a public project must be on as sound a basis as the promoters of any private enterprise could devise. Beck was a very J. Pierpont Morgan in industrial vision and executive capacity, but was afflicted with a passion for public service as distinguished from private gain. He saw far ahead and knew what cheap electricity in the homes and factories and on the farms of Ontario would mean.

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## Fies, Cont'd

CON

has been astounding in a period of less than ten years. Many modern, large-capacity steam plants are producing a DWH on less than one pound of coal.

If the government is sincere in its desire to determine a yardstick for the cost of electricity—as against what is generally supposed to be its motive, namely, a so-called social planning that will spread to all corners of the country—they should build a steam plant where the cost involved would be very much less and where the employment of men in large numbers permanently producing coal for such plants would be made possible. This would serve to determine to the Government's satisfaction whether hydro-power or steam power is the true measure of the cost of power production.

The insistent, unreasonable and inexcusable position of the Government to continue to build hydro-electric plants whenever and wherever it strikes its fancy, with full knowledge that steam generating plants, located in any section of the country where fuel is available at a fair price, can produce power at less cost, is untenable. Surely, students of so-called "mass psychology"—and there are many within our government—must believe that this is a popular move, with the taxpayer holding the bag. We shall learn to our sorrow sooner or later that an appeal to mass psychology will never rid us of an economic depression.

The original building of the Muscle Shoals Dam never contemplated such a plan as is now being advanced by our Government through the TVA. All the debates within recent years before the Senate and the House made no reference to the Government, or any agency of the Government, entering into business along such broad lines as that in which it is now engaged. For years all that could be heard in Washington was the great value and amount of power at Muscle Shoals and what could be done at Wilson Dam—and now what do we behold?

Dr. Morgan, in a statement before the Sub-committee on Appropriations of the Senate, had this to say: "Muscle Shoals, taken by itself, is not an economically feasible unit." But the Chairman failed to state that Wilson Dam in conjunction with the Sheffield steam plant costing 12 million dollars and already paid for, would have sufficed in determining the "yardstick" about which you have heard so much in the past years; and that the expenditures for Wheeler and Norris dams, amounting to something around 75 million dollars, could have been avoided, at least for the present.

However, after making a start on Norris and Wheeler dams, the engineers of the TVA have no doubt found that these three dams, when operated as power projects, are not "economically feasible," and so they propose four more and increase the capacity from 225,000 KW to 750,000 KW. If you could increase your business today 300%, you could make it pay. The problem for you is to find the market, and this governmental agency proposes to remove that difficulty, as far as it is concerned, by the confiscation of the property of utilities, by the seizure of their markets, by dispossessing the coal operators of their properties and by appropriating the jobs of thousands of miners working in the coal mines to this and adjoining states.

But even after building these four additional dams, making a total of seven, the accusation is made here that such operation under the rates initiated in thirty-year contracts and under those fairly estimated for surplus power, will result in an annual deficit to the TVA.

If you will take a map of the United States and locate on it, approximately, Aurora Dam, Norris Dam and Wilson Dam, which will give you a general location of the various dams to be built and already built on the Tennessee River, and then take a radius of 250 miles from each of these dams, the results will be interesting.

You will find, first, that practically all the coal producing states in the Appalachian Field, which constitutes the great coal producing states with the exception of Pennsylvania, will be wholly or partially within the circles and all will be directly affected by the transmission lines to be built from these various dams. You will ascertain that Alabama, Tennessee and all of Kentucky are within these circles, and a very large part of the great coal producing state of West Virginia, and, to a less extent, Ohio, Illinois and Indiana. Such cities as Evansville, Terre Haute, Louisville, Cincinnati, Indianapolis, Dayton, Springfield (Ohio) St. Louis, Little Rock, Meridian, Montgomery, Atlanta, Roanoke, Charleston (W. Va.) and Columbia (S. C.) are within transmission line distance.

North of the Tennessee River are the great high-efficiency steam plants of the utility companies and great coal-consuming markets. At dumping, loss-producing rates, this will be a field for the surplus power from the Tennessee River at the expense of the coal producers, the coal miners and the taxpayers of the country. And there is nothing that the coal producer in Kentucky, West Virginia, Ohio, Indiana, Illinois, Tennessee and Alabama can do about it for the very good and sufficient reason that the TVA's pocket-book has no bottom—certainly none as far as we can see today.

The effect upon the coal industry by such governmental action is two-fold: Not only will its hydro-power displace coal-produced power, but this hydropower, at deficit producing rates, will replace all manner of appliances presently using coal as a source of energy. In other words, there is a double jeopardy; first in the production of power and, second, the displacement of coal in the consumption of power.

The Chairman of the TVA, and I am sure he speaks for the Authority, admitted before the Senate and the House committees that their program is going to result in harm to the coal industry; and then he states the plans made by the Authority for a study of other uses for coal. Heaven knows, I am the last man to decry any plan that will improve the uses of coal, particularly from a chemical standpoint: I have preached it for nearly six years. I have every faith in it—but, I must admit that its progress has been slow. However, I do not believe there is anything the Tennessee Valley Authority can do to expedite it. Some of the most able and efficient scientists in the world, particularly as their knowledge relates to the chemistry of coal, are connected with the United States Bureau of Mines; and in a review issued by the Bureau, dated December 31, 1933, entitled "Recent Developments in Coal

*Con continued on page 258*

On the other hand, he did not propose that the Hydro-electric system should be an eleemosynary institution. It was to be self-liquidating with a vengeance and in a fashion unknown to private power executives. No municipality, no farm district, no householder, and no manufacturer was to be subsidized. Each was to receive electric service "at cost," but each municipality and each class of consumers must pay the exact and total cost incurred in serving it. "Cost" was to include all depreciation, sinking-fund, interest, and operating charges, and was to be paid entirely from revenue collected from customers and not at all from taxes. From the beginning this enterprise has stood on its own feet and all that the provincial government or the government of any municipality has ever done has been to guarantee the bonds of the enterprise.

Note especially that from the beginning the members of the Hydro Commission set their faces like flint against the utility being used as a taxing agency. They said to the mayors and city councils: "Hydro will be independent financially and ask nothing from you. But its surplus revenues belong to the light and power consumers. We will not turn over these surpluses to make up deficits in your street-lighting, building, park, fire, or other departments, or to sustain charities. We will not encourage extravagance, waste, and mismanagement in other departments. You must put them on a self-sustaining basis, as we have put ourselves. We will not compel the power consumers to make up deficits caused by real-estate speculators holding land out of use and waiting for a rise in values, by other tax dodgers, or by an unsound system of taxation. This is the surest method of keeping us out of your political squabbles." That policy has never pleased Ontario politicians and to this day they are trying to break into Hydro's surpluses. If you hear of any rows now in progress in Ontario over the Hydro, know that this is one of the fundamental causes, not the question of validity of public ownership.

To put Hydro on such a business-like basis an efficient, uniform system of accounting and cost-finding was necessary. The inadequate, hocus-pocus methods of the private companies were at once discarded and a new system put in force, worked out by the most distinguished auditors and certified accountants of Ontario. Another principle laid down and hammered in until it has become almost a religion with the people of the province is that "Hydro must be kept out of politics." Of course no institution, public or private, can be removed from the sphere of government, and government belongs to the people, or should. But Beck did not propose to run his transmission lines to towns on the basis of political pull or award contracts as "pork" for heavy contributors to the funds of the Conservative Party, to which he belonged, or of any other party, nor did he propose to hire managers, engineers, or other technicians because they were recommended by political heavyweights. Of course the politicians tried their old game with Beck, but they were repulsed with vengeance, and his reputation for ruthlessness no doubt arises from his action in this matter, as well as from the forthright fashion in which he dealt with financiers, newspapers, and private-utility magnates intent on scuttling his enterprise from within and without.

Another principle of the Hydro was and is dependable service. Therefore it had to have the best engineering and thoroughly sound construction. Hydro was to be built to last, and tawdry equipment is not consistent with long-range economy. Hence Hydro is today a model of technical engineering efficiency, admired and studied by engineers from all over the world.

There is, however, a charming story that when the plans for the great Chippewa Canal, eleven miles long around Niagara Falls, which serves the Queenston plant, were completed and construction was about to begin, certain private interests, determined to block Beck and public ownership, engaged a celebrated American hydraulic engineer to report on the soundness of these plans. After making his examination, this engineer appeared one day in Beck's office and told him that out of courtesy he wished to inform him in advance that he had found the plans unsound from an engineering point of view, and that the enterprise would end in financial failure. Beck replied: "I do not know you or your ability or who hired you to make this report, or what is really up your sleeve. I do know of the ability and integrity of my own engineers. Make your report and be damned! And now please retire from my office." It may be added that the report never appeared.

This illustrates another factor in Hydro's success. It had a leadership which fought and gave no quarter. I know personally and have talked with many of these old battlers. They tell me that they were aware from the start that the private-power men and the bankers would stop at nothing to ditch Hydro and cause it to fail; that they would burrow from within and put traitors at important posts, if possible; that no promise of cooperation or fair dealing would be kept. Hence they refused to enter into any cooperation or any commitments which would tie their hands. The public interest in the success of Hydro and the greed for gain of utility buccaneers could not be coordinated. The camel's nose has been kept out of the tent, and that is another huge factor in Hydro's success, because when the power camels cannot make huge profits on inflated securities in the utility business they get out and go into some other business.

Sir Adam and his coworkers knew that most municipal-ownership enterprises had been blocked at the start, sometimes for years, by taxpayers' lawsuits, brought at the secret instance of private utilities which had no hope of winning them but wished to delay and bedevil the public enterprise. Meanwhile the private utilities would go on making their profits, a small part of which would pay for the lawsuit. Sir Adam proposed to have none of this sort of racket, as did the legislature of Ontario. The act creating the commission and establishing its broad powers sets the Hydro free of such criminal interference with the public welfare. This is not to say that a man having a just cause can be denied his day in court. There have been a few cases, but very few, for the commission has played fair with the public and, indeed, with the private utilities. But there has been no wholesale flood of lawsuits frustrating the municipalities or the Hydro engineers and managers such as I anticipate will be launched in Alabama and Tennessee in the near future.—*Extracts, see 12, p. 256.*

## Fies, Cont'd

C O N

Utilization", covering the accomplishments in research in the chemistry of coal during that year, this summarizing statement is made: "There seems to be no uses for coal in sight which run into sizable tonnages other than combustion for the generation of heat and power." As a matter of fact, the greatest service the Tennessee Valley Authority could render the coal industry would be to allot the \$100,000 to the Bureau of Mines, whose funds have been reduced—this being a fine example of consistency—for the purpose of carrying on the work. The Bureau has 20 years experience in this work at their command, which would surely be of more effective value, as against the TVA starting the work anew.

Dr. Morgan should have known of the Bureau's research work in coal. At the time when the coal people had instituted a suit against the Tennessee Valley Authority, to make a public statement that \$100,000 is going to be appropriated for research work, when it is generally known that many million dollars have already been spent, and to do it with the purpose of assuaging public opinion, is nothing more or less than an effort at deception. The truth of the matter is that the TVA's prime purpose is to produce power, sell it to the public at a loss, as evidenced by the schedule of rates named, and make the taxpayers pay for it.

The Tennessee Valley Authority asks for 300 million dollars to develop electric energy with the hope of finding minerals that can be smelted.

In this testimony referred to, Dr. Morgan, in his effort to impress the Committee of the Senate with the variety of interests of the TVA, made reference to the smelting of manganese at Muscle Shoals.

From his testimony it is evident that Dr. Morgan has no definite information as to where manganese is located in the area adjoining Muscle Shoals in sufficient quantities and of the necessary quality for such purpose. He made a general statement that "we have hundreds of deposits of manganese there" in the Tennessee Valley Area. He goes on to say that 90% of the manganese used in this country comes from foreign countries. He admits that the manganese in the Tennessee Valley area is in little pockets; that he hopes to be able to develop little manganese co-operatives; and that altogether he hopes to be able to employ 40,000 men in producing manganese that now comes from Russia and Brazil.

In the publication by the U. S. Bureau of Mines issued in May of this year, I find that the amount of manganese ore of all grades, good and bad, produced during the 17-year period 1913 to 1930, which includes the war period, when manganese was high and scarce, in the states of Arkansas, Georgia, Tennessee and Virginia was 33,770 tons per year, or less than 3,000 tons per month, from all these states; also that the largest available deposits of manganese in this country are found in Minnesota and South Dakota; and that there is serious doubt in the minds of geologists and metallurgists as to whether these ores can be economically smelted in competition with high grade manganese ores of Brazil and Russia. Low grade manganese ores cannot if found, be smelted with high cost power when high grade foreign ores can be cheaply transported to points of low-cost power such as

on the St. Lawrence or the Columbia rivers.

I could cite other instances of exaggeration in statements made by Dr. Morgan in his testimony. I mention this for purpose of warning against the press releases and the propaganda being put out by this socialistic arm of our Government—and it is a socialistic arm of our Government! You can believe it because no less an authority than Mr. Norman E. Thomas, the presidential nominee of the Socialist Party in the last election, said:

"The TVA is the only genuinely socialistic project in the New Deal—a beautiful flower in a garden of weeds."

Norman Thomas should know pure socialism when he sees it!

Oh, I know that my motives will be ascribed as selfish, and that the coal people are seeking to protect themselves and their employees as against the good that may come to a greater number of people, but the ultimate result, is going to be devastating if the present processes are not stopped. From the standpoint of taxes, from the standpoint of jobs, and from the standpoint of the ultimate good of the people of Alabama, the end does not justify by any means what is being attempted.

There has been a great deal said about the backwardness of Alabama, about our illiteracy, our superstitions, our ignorance, and about the results of "the stars that fell on Alabama", but we shall work out our own salvation through the natural channels, through the normal evolutions of human nature and character, if we are only permitted to do so. Strength of character is very much more to be desired in a people than superficial material attainments. The selective principles through which Antioch College is operated in my judgment cannot be applied to the people of the hills of North Alabama. Surely, a noted educator and a civil engineer, the President of this College, should know that "if we lift a people like mere clay, it falls the same".—*Extracts, see II p. 256.*

by Thomas A. Edison (1929)

A GREAT deal more fuss is being made over hydroelectric power than its intrinsic value warrants. The development of hydroelectric power is very important, but also it is very expensive and usually requires an auxiliary coal steam plant. Some of the best water power is too far away from our manufacturing centers to make its utilization wholly practical.

Water power is a political issue, not a business one. It can never at the best mean very much to us except as something to talk about. The monopolizing of water power is also just a political idea. There is far more danger in public monopoly than there is in private monopoly, for when the Government goes into business it can always shift its losses to the taxpayers. If it goes into the power business it can pretend to sell cheap power and then cover up its losses.

The Government never really goes into business, for it never makes ends meet. And that is the first requisite of business. It just mixes a little business with a lot of politics and no one ever gets a chance to find out what is actually going on.—*(Statement, 1929).*

## News From Washington on Federal Aid for Education

As a result of the primary elections in Massachusetts on September 20, the House Committee on Education will have a new chairman after the House is organized in January 1935. Representative John J. Douglass of the Eleventh Massachusetts Congressional District, which takes in Chelsea, part of Boston and part of Cambridge, was defeated in a five-cornered race in the Democratic primary by John P. Higgins, of Boston.

Under the "Lame Duck" Amendment to the Constitution, Mr. Douglass' successor, to be elected in November, will take his seat when the new Congress convenes on January 7. Speculation as to who will succeed Mr. Douglass as Chairman of the Committee on Education is idle at this writing, since other high ranking members of the Committee are facing fights for reelection in November and until those elections are over the fate of those who were members of the Committee in the adjourned Congress will not be known.

Senator David D. Walsh, also of Massachusetts, Chairman of the Senate Committee on Education and Labor, was renominated in a three-cornered primary fight and, unless a marked political upset occurs, his election seems fairly certain.

NEITHER Government officials interested in education nor those at the headquarters of the various educational organizations in Washington will venture a prediction as to probable education legislation in the next Congress. The bill reported by the House Committee on Education, calling for the appropriation of \$500,000 for emergency aid for schools, which did not come to a vote, is expected to be reintroduced, but what the financial status of the various State school systems will be by the time Congress convenes is problematical.

A number of States are reporting that tax collections are picking up. Some announce partial restoration of salary cuts.

In the States affected by the drought the plight of the schools is serious. In some States the teachers will be receiving warrants for their pay. The rural districts in these sections are worse off than the urban sections.

Reports received indicate public school enrollment has increased, particularly in the high schools. Colleges are reported holding their own. The Federal Relief Administration is assisting about 100,000 needy college students.

The Office of Education estimates that the average of school days has dropped somewhat, whereas the tendency

had been to increase the average term to 180 days. Last term's average was a bit less than 170 days. The general average in European countries is close to 200 days.

By the time various State legislatures meet in January and consider their respective school and tax problems, more figures will be obtainable and a fairly accurate estimate of the nationwide school condition may be made.

IN anticipation of efforts to obtain further Federal aid for schools, the National Education Association has sent inquiries to the school authorities of twenty-five states affected by the drought and other adverse conditions in an effort to obtain accurate information as to conditions and needs. Jointly with its Department of Superintendence, the N. E. A. has sent a message to all state school authorities who might consider closing schools for lack of funds urging them to keep the schools open and take it for granted that Federal aid will be forthcoming. During November, meetings will be held in the drought-affected states to work out a campaign for Federal emergency aid before Congress convenes.

FOLLOWING out the program laid down in the July 2 announcement of Federal Relief Director Hopkins for the employment of unemployed teachers in adult and nursery school education, the Federal Relief Administration is now spending \$2,400,000 for teachers of these two classes, and about \$60,000 a month for salaries and travel expenses of supervisors of these two classes of education. The program is intended to put to work about 40,000 teachers. The peak is expected to be reached by the middle of November as the adult and nursery schools become organized. FERA officials estimated in the middle of September that something more than 40,000 teachers will eventually be put to work. The funds are being given to State superintendents of education who, aided by the supervisors, attend to all details, subject to general regulations sent out from Washington.

FERA aid for needy college students is costing about \$1,500,000 a month. Under this plan FERA contributes \$15 a month to help pay for work done by the students to help defray their college expenses.

So far the officials of FERA have given no indication that they will go beyond the above program in emergency aid for schools in 1934-35.

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